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With The Editors

Partial Facts

"In line with improved earnings, salaries and wages of employes of Westinghouse Electric & Manufacturing Co. will be adjusted upward 10% from base rates this month. Net for three months ended January 31, last, was $4,379,450, against $2,064,558 a year ago. Company yesterday was awarded $1,088,330 Government contract for three generators."

That was the front-page report in one paper, and it made good reading, too.

Another leading daily headlined the item — "Westinghouse Wage Scale to Rise by 10%."

It would be hard to find a clearer example of the way news can miss its mark without any slightest intent on the part of the purveyors to twist its meaning. Anyone at all familiar with the trend of Westinghouse affairs knows that business has been good. Orders booked last month are estimated to have been the largest in almost three years and very substantially above those received in December. Shipments and profits were also on the way upward in the latter part of the year, and wages had naturally followed because of the sliding scale which adjusts them according to earnings.

But the change for the current month is not *up* to 10% above base rates; it is *down* to 10% above the base. It was 12% above for January. And while net profits for the three months ended January 31 were more than double those of a year earlier, the breakdown by months shows them running: November $1,822,117, December $1,598,595, and January $958,738. It is obvious why wages are lower when the actual recent trend of earnings is seen.

To report that the wage scale is to rise by 10% because the adjustment is still a plus one is no more informative than to announce that the thermometer will rise tomorrow to 8 degrees above zero, although it is now 30 above.

Cynics would say that the financial press always looks on the bright side of the news and plays up the items or the aspects that seem most likely to keep readers happy. Yet in this case at least there is more than enough to be cheerful about in the complete Westinghouse picture. The company has always experienced fluctuations in its actual rate of shipments which determine monthly profits but mean little to yearly results. The news on the whole is too good to be garbled.

*** IN THE NEXT ISSUE ***

Business Spotlight Shifts to Consumption

By Henry L. Blackburn

1940 Aircraft Round-Up

Covering the industry—the small as well as the large makers of planes and engines.

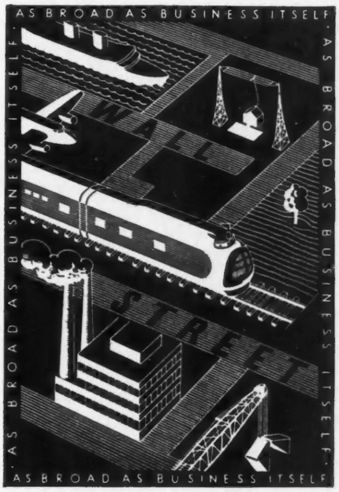
Nesmith

This American freighter discharging cargo in the Near East runs into examinations by the English and threats to sink her—if examined—by the Germans. The war is forcing us to think of our foreign markets as assets worth protecting. Despite a favorable current trend in exports, the United States is already deep in "The Struggle for World Trade."

See page 594.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher* : LAURENCE STERN, *Managing Editor*



Questions of the Day

Will first quarter earnings reports show as great a drop as the decline in business activity implies?

Each industry naturally has a somewhat different answer, but the consensus is definitely in the negative. Disregarding extremes like aircraft where production finds it impossible to catch up with orders, or like steel which has led the recession, the rank and file are still going along at a very satisfactory pace. The chemical business is excellent, mail order phenomenal, other merchandising good, automobile not at all bad, building and oil doing about as well as expected; metals and rail equipment have admittedly been sustained by earlier orders. A slump in profits may be scheduled for 1940, but the first quarter appears quite safe.

From the domestic angle, automobile production is the nearest thing to a key industry at the moment. Is the current drop in output to be interpreted as the manufacturers' way of reneging on the optimistic predictions they made at the first of the year?

There are facts to support both a negative and an affirmative answer to this question. Estimates of production have now fallen rather substantially below those made at the year end, and stocks in dealers' hands are apparently rising a trifle faster than the industry had expected. Yet the restocking of dealers was deliberately planned, with production running well above a year ago and almost twice as high as two years ago, still dropping, but recently at less than the seasonal rate. And retail sales, after faltering in January, rebounded early this month when the season called for a dip. Though weather conditions have doubtless since made immediate car ownership less imperative to buyers, they seem to share few of the doubts that occasionally bother the makers. No more than the ordinary amount of over-optimism can be charged against those New Year's statements to the press from Detroit.

Is it possible that the jump in English price levels —war-inflation, if it must be put in a word—can leave the cost of living here unaffected?

Since many of the world's most important commodities are priced in sterling and find their primary markets in England, the rise in costs there is bound to spread its influence wide. Wholesale prices, the London Economist reports, advanced as much in the first four months of this war as in the first year and a quarter of the World War—31 per cent. But the United States was insulated against part of this by the 14 per cent slump in sterling versus dollars. Another extremely important factor in creating a differential between prices in various countries is the cost of insuring and shipping commodities. Recently the expense of shipping grain in neutral vessels from the Argentine to Antwerp has been equal to the price of the grain in South America. Transport difficulties not only push prices higher in the importing nation

but sometimes push them lower at the point of origin. Furthermore, Britain is trying her best to avoid inflation, internal or international; she is aware of the disadvantage of such conditions to her in buying necessities, and she regulates the price level of each commodity to the best of her ability.

In the United States, the rather stolid Bureau of Labor Statistics index of wholesale prices is only 2½ per cent above a year ago, having come down a full point since early January. Yet, if this war continues long enough, there is little doubt that the cost of living will follow the same trend here as in most other countries of the world.

The Trend of Events

THE INEVITABLE COMES SLOWLY . . . New details of the strain to which Japan is subjecting herself become known to outsiders each day. Of more significance, the situation is quite apparently growing clearer to the Japanese themselves. Criticism in the Diet of the army's policies and expenses, still on the apologetic side according to American standards, suggests in its frequency and its firmness a climax somewhere not far in the future.

The trouble might be called a decrease in the standard of living were it occurring elsewhere, but in Japan where there never was much of anything to spare it sums up to feeding the people on pride. The exploits of the army in China have lacked nourishing qualities. As General Hata, the War Minister, complained, his forces have killed about 3,000,000 Chinese soldiers, which is all that could be expected of any army, but the Chinese have learned nothing from this educational program carried on at such expense to the teachers.

Because of the war, Japanese factory workers who settled themselves at their machines one morning at the end of January were without warning sent home. A shortage of power caused by lack of coal threw 3,000,000 in one district out of work. Moves were made to force employers to pay some sort of pittance so that their men would be alive when needed again, but the power shortage has been only partially relieved. Even the heavy industries making munitions have not been immune. Then more recently the military budget made its appearance and its annual new high record, automatically assuring that old peaks in taxes and debt would be surpassed.

With the people at home growing rêstive under their burdens, with Russia apparently emboldened to resume its sniping tactics where they were dropped at the start of the Finnish venture, the policy of the Japanese generals has now changed remarkably. They are suddenly ready to talk things over, to assure the Chinese that they have all the territory wanted and unless provoked will attempt no more "victories." The attitude is so completely out of character that it, as well as the criticism at home, suggests a nearing climax. Yet, as experience in forecasting the collapse of the Nazis has shown, these diseases are appallingly stubborn.

STEEL PRICES AT BAY . . . The sharp decline in steel production in recent weeks and the still sharper drop in new orders, which are currently running around 40 or 45 per cent of mill capacity as compared with a production rate of about 67 per cent, has raised once more the question of whether steel prices are going to be able to stand the gaff. In view of past experience, it is altogether sensible to look somewhat askance at the steel price structure under the circumstances that currently exist.

At the same time, there are a number of factors present in the situation today that tend to offer support to list quotations, remembering that a certain amount of shading is almost always present and, so long as it is held within reasonable bounds, is not necessarily indicative of an incipient collapse of the entire structure.

Inventories, of course, are the object of considerable headshaking though the chances are that they are not as far out of line as might be supposed. Finished stocks at the mills are virtually at the vanishing point and certainly constitute no cause for worry. Stocks in the hands of consumers are not easily measurable but according to what seem to be the most reliable trade estimates are far below the dangerously inflated level of 1937 and, even more significant, are declining; that is, consumers are dipping into inventories to fill needs over and above those met by the present rate of mill shipments.

Perhaps the most encouraging aspect of the steel price picture at the moment, however, is that in connection with Detroit buying. The motor makers have not come into the market in quantity as yet, for their own production schedules are currently being curtailed pending the spring upturn in demand. But the industry's hardest bargainer, Ford Motor Co., recently placed a considerable tonnage of sheets at full list prices, a development that may soon bring in other buyers who have been hanging back due to uncertainty over the price situation.

MEASURING BUSINESS FLUCTUATIONS . . . The Federal Reserve Board goes to considerable pains in its February Bulletin to tell just what its index of industrial production is, what it measures and what are its virtues and limitations. The points it brings out are essentially the same as those discussed in "What the Business Indexes Don't Tell" which appeared in The Magazine of Wall Street, November 4, 1939. A point it failed to mention specifically, however, and one that was not of current significance at the time the above article was published, concerns the question of correction for seasonal variation from December to January.

The Board's index, adjusted for seasonal variation, reached a peak of 128 in December, thereafter declining to 120 in January. The same index before such adjustment, however, recorded a much smaller drop—only from 120 to 118. Because a number of other seasonally adjusted indexes (of business, however, rather than merely production), including that of this publication, show a considerably less abrupt decline for January, the question has been raised as to whether the Board's seasonal adjustments around the turn of the year may not be a little out of line. The answer is that they probably are.

The Board's adjustment is such that industrial production must actually rise about 5 per cent in January over December if the adjusted index is to hold its own—that is, normal expectation, according to the Board, is that production should expand by this much due to purely seasonal factors and entirely apart from those of cyclical or accidental character. Such expectation, however, seems a trifle optimistic.

True, there are several individual business measures that, other things remaining equal, tend to rise slightly in January. These include electric power output, carloadings and lumber production. They are somewhat more than offset, however, by normally expected heavy declines in such important series as automobile production and steel operations and by a somewhat lesser decline in the volume of check payments. Perhaps the best evidence of all that the Board's adjustments have left something to be desired is the statement in its current Bulletin that "Revisions now being made in the index will . . . improve the allowances for working days and seasonal variation."

AIR SAFETY . . . Some rather significant figures were brought out in connection with the 1939 aviation safety awards made recently by the National Safety Council. Nearly 82,000,000 scheduled plane miles were flown in this country last year — an average of almost 220,000 daily — with only two accidents involving fatalities. All of the four major domestic lines — American, Eastern, TWA and United — completed the year with clear records. Two of these companies have operated without a fatality for four or more years while, among the smaller lines, Pennsylvania-Central has not had a fatal accident in the entire twelve years of its operating history. Overall statistics indicate that passenger safety in domestic air travel has increased 2,700 per cent in the past ten years.

Quite apart from considerations as to the service done the traveling public, this record stands for something of utmost importance to the airlines themselves. Perhaps it is merely coincidence that as accidents have been sharply reduced the airlines have begun to show profits, but it is more logical to believe that there is a direct cause and effect relationship here. Certainly it is the best kind of public relations and is hastening the day when air safety will be taken for granted. It is in the direction of the latter goal that the opportunity for growth in commercial aviation lies.

NO TIME TO ROCK THE BOAT . . . It is now pretty definite that a major election will be held among General Motors workers in April to determine which plants will be represented in subsequent bargaining by CIO and which by AF of L. It is the present intention of both unions to call for new contracts immediately the election is out of the way and according to recent press reports some rather fancy demands will be made including an annual wage, a 30-hour week, a general wage increase, higher rates for overtime, and so on.

Whether the differences that are bound to rise between the management and the unions in these negotiations will be settled peaceably cannot be positively foretold but the record, especially in the case of CIO, is by no means reassuring on this score. If a strike results it will indeed be unfortunate for this spring will almost assuredly be no time to rock the recovery boat. It will be a time when motor production should be rising nicely on the usual spring swell and it will also be a time when, as likely as not, business at large will be attempting a comeback following the current reaction.

An ironical sidelight on the prospect of another major labor disturbance at a time when it would be so patently uncalled for is that it could scarcely contribute to the real improvement in labor's lot. Such, at least, is the conclusion to be drawn from evidence with respect to labor as a whole over the past decade. Improvement there has been to be sure, but it has derived solely from lower living costs and not in the least from higher wage rates which have been slightly more than offset by a decline in the weekly number of hours worked. Thus, according to data of the National Industrial Conference Board, average weekly earnings in 25 manufacturing industries were about 2 percent lower in the final six months of 1939 than they were in the same months of 1929 though manufacturing output in both periods was approximately the same. The increase in real wages, brought about by lower prices for things that labor buys, has been in response to forces completely beyond the control of any labor union and in no little degree to technological and managerial advances making lower prices possible.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on the following page. The counsel embodied in this feature should be considered in connection with all investment suggestions elsewhere in this issue. Monday, February 19, 1940.

The Wisest Market Policy Now

War uncertainties discolor an otherwise promising market background. Until these are clarified the question of exactly when the business downtrend will end is probably secondary. We favor a sidelines position.

BY A. T. MILLER

A LOOK at the daily market index on the opposite page will show why opinion in the Street has been noticeably more cheerful in the past fortnight. Aside from the inevitable help to sentiment when the averages lift off bottom, there are those very definite refusals to close below 105, and the evident failure to bring out any stock around that level. It is clear that the kind things that had been said here and elsewhere about the technical health of the market were justified.

The rally is revealed as more of an achievement when compared with the trend in the business activity line charted just below the market index. For once the predictions of a decline in business made all during the last quarter came through exactly on schedule. If anything they are turning out to have been too moderate, for the slump has been equaling the pace of last autumn's advance when industry was doing its utmost to get production into full swing. This recession was called the best-advertised on record before it started. Now that it is under way it shows aspirations for the title of most thoroughly discounted in terms of stock prices.

The title will be difficult to win for two reasons. In the first place, there have been occasions in the past when the market kept going steadily higher for as much as eight consecutive months while industrial production fell off, leaving quite a record of divergence at which to shoot. In the second place, these are obviously not times when confidence in the future is likely to be sustained through persistently discouraging business news. It is safe to assume that the buyers of stocks would be bitterly disappointed if the downtrend in industry were not to end early in the second quarter at the latest.

The outlook for a nearby turn in business is still obscure, although reassuring points are multiplying as the decline progresses. All we would insist upon in this connection is that the bottom *may* be further off than most people now suppose likely, and that their disappointment constitutes a potential threat to stock prices.

There is a much better chance, though, that the decision in this long-drawn-out test of the bull market will come from outside the business sphere, either from war developments or the trend in domestic politics. When it comes it will affect industry too, but that will be only incidental to the process of regaining confidence or finding fears confirmed. Steel operations at 67 per cent are not a cause of a hesitant stock market but an effect of the same doubts that are in investors' minds.

Recent strength in commodities is generally taken as a hopeful sign pointing to resumption of the uptrend in securities as well. While precedent is favorable to this view, it must be remembered that one possibly inescapable effect of the war now going on is the inflation in prices of many kinds of goods. The buying in most commodity markets today has always in the background war needs and the competition to anticipate them. This flurry may develop into another major leg of the rise that started in September, and could in that case be rather important as an incentive for industry to resume ordering; but it is as yet too young to be called more than a rally. It will be remembered that we had one of fairly substantial proportions last December which afforded the stock market no visible help.

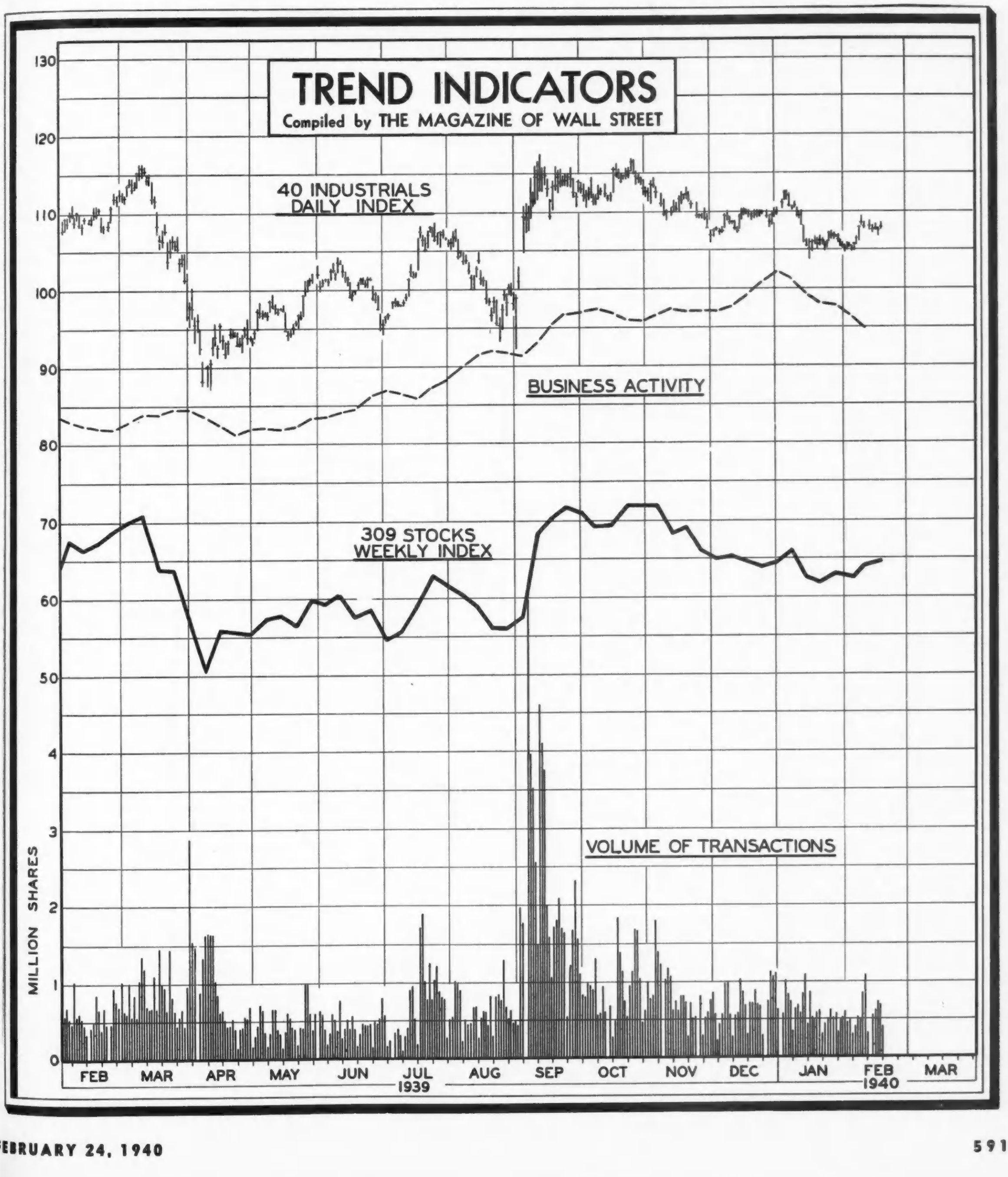
Another tendency of the recent past which might have a significant bearing on the future has been strength in the American dollar, not against this or that individual currency, but against all the world. Of all the monetary units traded in New York, only the Uruguayan peso was able to gain in terms of the dollar last week, and that by a quarter of a cent. The remainder declined or held steady, with the more prominent exchange rates falling considerably. The implications are numerous and mixed, but so far as the New York market is concerned the direct consequence is to create automatic profits for the English and French and Dutch who hold American securities. A rise in the dollar is the equivalent for them of a rise in our stock market; and under the circumstances it may invite profit-taking.

Action of the British Treasury in taking over English holdings in a list of 60 American issues is due to revive the subject of foreign selling, with more specific information on which to base opinions. The securities now owned by the British government and presumably subject to the most direct action in case of need for dollar exchange are listed in full on page 629.

The omissions are the most startling details of this list. U. S. Steel, General Motors, American Telephone, Pennsylvania Railroad, Anaconda, Sears, Bethlehem and Chrysler would have been confidently expected there. We doubt if the choice involved any attempt at investment discretion; it probably hinged on the amount of cash each issue represented, as well as marketability in certain cases. Since the English were known to have held large amounts of the stocks named above, their omission implies that liquidation in them at least has already proceeded faster than had been realized and may mean lack of future pressure.

The more that becomes known about potential foreign selling the less damaging will be its total effect on the market, although such news as this does confirm the fact that every buy order for American industry may entail a sell order in an American security. Fear of selling in the leaders has been a factor in turning the public more to second grade issues recently—that, together with restless stirrings of the speculative spirit.

Eventually there will be uses to which this urge to speculate can be put with some results. At the moment any commitments for the general rise run the risk of being premature. There are a number of vital questions still left to be answered—brought no nearer clarification by recent improved market action. Despite encouraging signs, the basis for assuming that the test has been passed is not yet dependable. —Monday, February 19.



Happening in Washington

The Spending Issue

BY E. K. T.

FEDERAL spending will be a major campaign issue this fall, and the outlines of the issue are now being shaped up by Congressional consideration of appropriation bills. President Roosevelt believes in the necessity and virtue of heavy spending and the Democratic candidate, whoever he may be, will virtually have to defend it if not champion it.

On the other hand, Congress generally, including a majority of the Democrats, is not sold on deficit financing and spending for spending's sake. The Congressional urge to spend is to continue programs of immediate value to particular constituents rather than to promote such abstruse theories as pump-priming, compensated debts, and investment spending. Congress deplores the mounting debt and series of deficits and wants to economize but is finding that cuts are painful. Every big appropriation item is made with an apology rather than a boast, so the issue remains.

Last month when Roosevelt submitted his "bedrock" budget, "satisfied that no lower figures can be attained except at the expense of impairing efficiency," there was a feeling that he expected and hoped that Congress would exceed the budget by a considerable amount. This seems to be confirmed by recent developments. He has severely criticized budget reductions made by the House and gone out of his way to belittle the size of the debt. He views his budget as the least amount Congress should appropriate instead of a top limit. He views heavy deficit spending as a virtue; Congress views moderate deficit spending as a necessary evil, to be eliminated as rapidly as politically possible. Both think the general public supports them.

The House is slashing all appropriation bills deeply with the announced intention of cutting enough to avoid the necessity of finding $460,000,000 new taxes. The Senate is restoring some of these cuts, and will continue to do so. Right now Congress is in a struggle with itself over economy. So far the lines have held pretty well, with the special interest groups feeling that they are all in the same boat. But once the bars are let down on one big item the other pressure groups will holler for their share of gravy and the economy bloc will evaporate. An early test is Senate action on farm benefits and whether the House will stand by its cuts in the agriculture department bill. Not a few members who have been talking economy have been hoping that cuts elsewhere would permit restoration of farm funds later in the session.

It's too early yet to forecast what total appropriations will be. The usual procedure is for Congress to talk economy early in a session and wind up by appropriating a lot more, and it is heading that way again. There are always supplemental items after the main bills are through. Relief, for example, has not even been considered as yet. Certainly much of the "paper reduction" the House has made in the budget will be lost. Chances are the total appropriations will be somewhat under budget estimates but not by the half-billion goal of the economy bloc. Whether the cut will be sufficient to avoid a new tax bill is a question, but Congress won't vote taxes this session if there is any possible alternative—even though it becomes apparent that the new Congress next January will either have to raise funds immediately or boost the debt limit.

Congress is enjoying its regained control of the purse strings, and is using its power and the economy excuse to curb various executive activities. This irritates Roosevelt no end, and when he criticizes, Congress gets its back up and is more determined than ever. If Congress weakens on economy it will not be because of White House pressure or sympathy with the New Deal spending theory, but because of special interest groups within itself.

The course of business during the next couple of months will have a big effect on appropriation bills. If there is an early pick-up in activity and employment and prospects look good for agricultural exports and prices, the economy lines may hold firm, but if this is delayed the spending theorists can support the pressure groups with the plea that prospects of curtailed spending are causing a slump and there must be new pump-priming to avoid a crash and untold human distress.

Mr. Roosevelt's latest defense of government spending has not done him any noticeable good with Con-

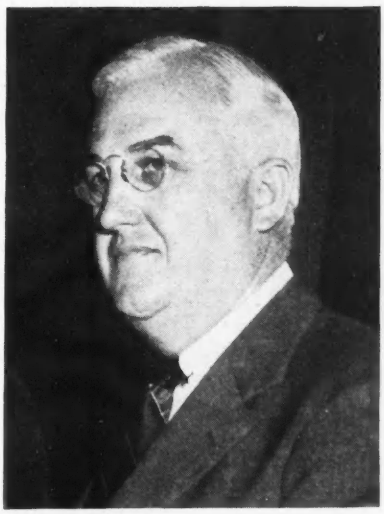
gress. He claims the increased Federal debt has been offset by a virtual stand-still in state, county and municipal debt and a reduction in private debt, so the debt burden of the nation as a whole is no more than when he took office. To practical politicians who see public debt as something to be paid off through taxes and who are not sufficiently versed in New Deal economics to appreciate the theories of compensatory spending and government investment this argument carries little weight. The same with the public, to judge from the general reaction. Government debt on the whole is non-productive, does not create wealth. Private debt, by and large, is incurred to create assets and produce new wealth, it increases the national income. Government is an economic parasite; individual and corporate debts, in the long run, liquidate themselves and benefit both lender and borrower in the process.

The spending argument defeats itself. The figures on private debt show that instead of reviving business this administration has deflated it tremendously, and that private debt creation, otherwise known as new investment—the heart of capitalism—is being stifled. Some figures being used to substantiate the President's statement but to condemn rather than praise his record are on new capital security offerings of domestic corporations. For various years these are (stated in millions): 1929, $5,788; 1935, $404; 1936, $1,192; 1937, $1,225; 1938, $872; 1939, $371.

Republicans next fall will promise an administration which will encourage private investment. Since Roosevelt is obviously trying to make his party defend Government spending as the equivalent of private investment and to fight economy on this ground, the Federal budget will be a much greater issue than merely the size of the tax load needed to carry it. The President admits that the greater the Federal debt the smaller are private investments, and his opponents are already taking him up on this. This leaves the non-spend Democrats in a hole. They aren't sold on the President's theory and fear the country can't be, either. They prefer to cut as much as possible where it will hurt the least and make a showing of economy. It is not yet clear whether they can hold out against a combination of New Deal theorists and special pressure groups.

CAPITOL BRIEFS

Politics are getting hot as Roosevelt gets irked at third-term speculation but lets his name be presented in several states, while Farley clamps down on third-term talk in Dem. Nat. Committee and enters primaries himself. But New Deal inner circle is working with pro-Roosevelt local politicians to have a large group of states send uninstructed delegations controlled by them and weighted against conservatives; these could be swung either for Roosevelt or his designee. Belief grows Roosevelt wants a convention eager to offer him the nomination and that his decision to take it or not will depend on intervening events, particularly international affairs.



Wide World Photo

Representative Woodrum fights in Appropriations Committee for economy.

Peace efforts by Roosevelt are only exploratory now. He would like to be able to stop the war but has no real plan and for the present hopes only to forestall civilian bombings and get suggestions from both belligerents and neutrals for a peace proposal to be advanced later. Designation of Sumner Welles as personal representative was based on desire for more information than can be got through regular channels during war and to avoid Wilson's troubles in sending a secret emissary.

Supreme Court trend has lawyers worried. In many cases recently Court has deliberately reversed old decisions on the ground that apparent merits and justice of each case are more important than precedents, though minority of Court has pointed out this leaves citizens no reliance on settled body of decisions. These decisions are due more to new membership on court than to changed conditions and do not give any clue to future except that volume of litigation appealed to Supreme Court will increase enormously.

Administrative agencies curb is big issue in Congress right now and if Administration succeeds in killing it this will be an important campaign issue. Logan - Walter bill, drafted by American Bar Association and reported by both Senate and House judiciary committees, would establish uniform rules of procedure for all federal agencies and provide court appeal at all stages. Administration is fighting desperately for delay in fear this bill would hamstring it, and sincere students claim it would result in a lawyers' picnic, but unless a substitute is found soon Congress may enact it.

T N E C final report and recommendations will be held up until after election, but next month a series of 50 special reports will be issued which may surprise in their moderate—and conflicting—views. Idea is to promote discussion. These, and volumes of T N E C hearings, are going to college libraries and are already becoming the basis for much economic study, being considered first class source material. They may influence economic thinking for a generation.

Triangle

The Struggle for World Trade

BY H. M. TREMAINE

The London Daily Mail remarked on the subject of Britain's shift in tobacco purchases from the United States to Turkey: "To the United States this is a question of inconvenience. To us it is a matter of life and death." Almost the same thing might be said of foreign trade in general. This country could in a pinch get along without its export business; but to some of its competitors there is no choice—they must export or die. The danger is that in fighting for larger shares of world markets they will consider our customers as part of the spoils, to be taken over without much of a struggle since we are proverbially careless with our valuables.

On the surface, the United States seems to have little ground for complaint. Exports picked up with the outbreak of war and they have continued to gain. December was the biggest month in this respect since March, 1930, and registered an increase of 37 per cent over the shipments abroad of a year earlier. Volume of shipments was actually at the high pace of late 1929, with values lower because of the change in prices. Even the December gain of 26 per cent over the previous month was a remarkable one.

The objection to an attitude of meek thankfulness

for the progress shown in recent months may seem unreasonable, but there are good reasons for it. In the first place, we know that the gains are fortuitous and undependable. Sales of aircraft and machine tools in large quantities are windfall business, not a true enlargement of trade. Exports to Japan were rushed because of fear that expiration of the treaty with that nation in January might bring some obstacles to future shipments. At least part of the increase in business with Latin-America was due to the initial disorganization of the British economy in the first few months of the war. England has already shown definitely that she wants that business back and is taking steps to get it.

However, even if the gains are essentially temporary ones caused by the war and slated to disappear with peace, they should be welcome. Unfortunately, they have another disadvantage. Instead of buying what we have for sale, the rest of the world very naturally does its own shopping in the American storehouse, shrugs indifferently at wheat, is still doubtful about cotton and oil, knows better places to get tobacco and fruit. The certain things they want from us, the aircraft and machinery, they can get nowhere else. If they could they probably would, because neither American products nor American dollars are cheap.

Shifting Export Markets

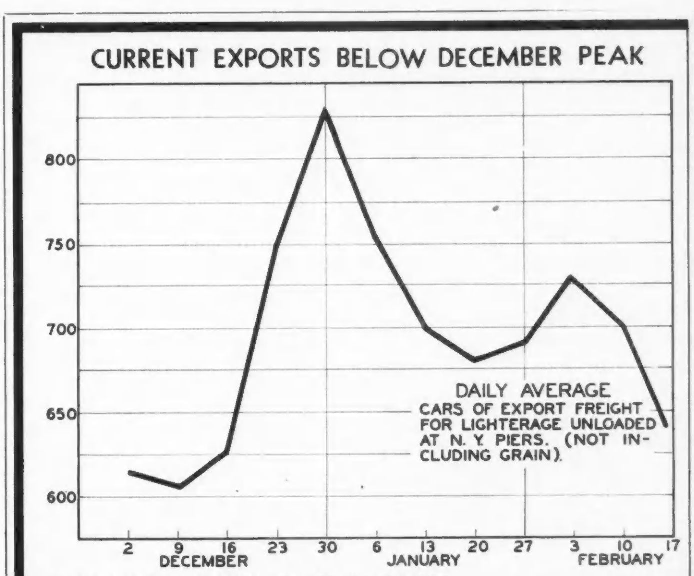
Any of these facts may change with little warning and one or two appear to be changing at the moment. What remains true through this whole period, though, is that export business besides increasing is altering its nature and its effects on American domestic economy. Control over business trends within the country is thus growing more and more subject to the decisions other nations make, to the requirements they see fit to allow us to fill. That is a penalty of a larger export trade and of the distorted way in which the world does business today.

The clearest example of this is tobacco. Always a surplus product in the United States, the commodity has built up many good customers and none better than England. If a substitute product or another source of supply were to ruin the export market for tobacco, the change would take place gradually and adjustments within this country would be natural and automatic. Farmers would be forced to shift their crops in line with demand. But when England suddenly halts her purchases with the idea of handing her orders to Turkey and Greece for diplomatic reasons, and also to conserve dollar exchange, it is not a mere adjustment that is needed. We might better send the Red Cross down into some sections of the tobacco states, rather than into areas the Nazis have subjugated. The tobacco farmers are in danger of needing help almost as badly as Germany's victims, and we should not be easing the burden for the Reich with our food and money.

The figures on tobacco exports tell a story that gains in significance when we realize that as an American agricultural surplus this crop is second only to cotton. For last year as a whole shipments of tobacco came to $77,422,000, against $155,671,000 in 1938. Exports in December were $4,985,000, against $16,253,000 twelve months earlier. The decline was smaller in terms of volume, since the fall in tobacco prices was sharp. But because production of this crop is rather tightly confined to certain small areas of the country, England's action has about the same economic effect on them as a flood or some other local disaster would have. The principal difference is that one is first page news with pictures and the other is second section, financial or editorial page stuff.

There are strong indications that England is going to resume buying tobacco from the United States. Pressure has been brought to bear in several ways, and the truth of the matter is that Turkey and Greece can not satisfy the tastes of English smokers. Even the restoration of the trade, however, will not remove the uneasy feeling that for the most powerful economy in the world the United States is remarkably subject to and at the mercy of deals made quietly in Istanbul or London or Bucharest.

There are also strong indications that the Allies are close to the point of increasing their business with the United States even more sharply than they did in December. The French have come into the market for copper and have already negotiated one substantial recent purchase in this country. The steel industry is also receiving inquiries and perhaps by this time orders from Allied sources, while the airplane industry is actually being put under uncomfortable pressure to accept extremely large orders. The Allies dislike the attempt to charge them with the cost of additional plant construction made necessary by their orders and they are making every effort to secure release of our latest types of planes for export to them. "Flight," a leading English aeronautical journal, suggests: "We appear to have become so hypnotized by American production talk that it has never occurred to us to look elsewhere for aircraft



Percentage Distribution of U. S. Exports

	1910-1914	*1918	1935-1939
BY ECONOMIC CLASSES:			
Crude materials	33%	16%	24%
Crude foodstuffs	6	9	4
Manufactured foodstuffs	14	23	6
Semi-manufactures	16	18	18
Finished manufactures	31	34	48
Total	100%	100%	100%
BY GEOGRAPHIC AREAS:			
Europe	62	62	43
Northern North America	15	15	15
Southern North America	8	7	9
South America	6	5	9
Asia	6	8	17
Oceania	2	2	3
Africa	1	1	4
Total	100%	100%	100%

*Calendar year; others end June 30. Department of Commerce figures.

supplies. . . . If we are to go quite mad and order aircraft abroad on an astronomic scale, why not give our old ally Italy a look-in?"

While this probably represents a bit of maneuvering to make us more willing to grant concessions, there is no getting around the fact that each acquisition of export business nowadays brings along its own headaches. Even in the case of South America where things have looked and are continuing to look very promising we are running into credit difficulties, exchange regulations, and the danger that trade with that area may be limited by the size of the indirect loans we are willing to negotiate. Notwithstanding the obstacles, though, foreign trade has been continuing its good pace of December right up until recent weeks, according to the indications available at New York piers. These figures on freight cars unloaded, shown in the chart, are about the only means of keeping up to date on actual shipments. Government figures are handicapped by a long lag, although naturally more comprehensive. And the weekly averages of daily unloadings have continued to show promise for the immediate future, although bad weather has affected the most recent week or two.

Agricultural or Industrial Economy?

One's attitude toward the recent shifts in foreign trade is necessarily colored by ideas as to what sort of economy is best for this country. Should a desperate defense of agricultural and raw material markets be made? Or should they be given up without too great a struggle provided offsetting gains in sales of manufactured goods are shown? In the latter case, the problem of internal adjustment between a declining and an advancing section of the economy is most difficult.

The accompanying table illustrates the change that had taken place before the start of the war, and it shows the effect of the last war. It will be seen that the decline in importance of crude materials and foodstuffs has gone along with a drop in Europe's value as a customer. While all other areas have been taking their share or larger ones of our exports, the European nations have built up alternative sources of supplies. (On the other hand, it is precisely because Europe buys copper from Africa rather than the United States that Africa can buy American automobiles.)

The plain and not very palatable truth of the matter is that the "have-not" countries of Europe would be our natural customers for raw materials, except that among the things they lack has been purchasing power of a sort acceptable to us. The nations whose needs are well supplied through developed industrial systems and controlled raw material sources are better friends but poor customers (except in an emergency) and strong competitors. When they do buy in quantity from the United States they spare no effort to prevent an adverse balance of trade by selling to some of our customers, or by switching other purchases away from us.

France, for example, bought 56 per cent more from the United States in the first four months of the war than in the same months of 1938. Yet the total of approximately $74,000,000 indicates that the most important part of her purchases was in the form of fairly direct military supplies—airplanes most conspicuously.

The United Kingdom actually took a smaller dollar value of our goods in this period than a year earlier. For the month of December alone England showed larger takings, but the increase was almost exactly matched by the rise in imports from that country. On a percentage basis the rise in purchases from the United Kingdom in December as compared with the previous December was considerably larger than the rise in sales to that country.

Canada jumped her purchases by 43 per cent in the September-December period, to gain first place among customers of the United States. The December comparison was $43,878,000 against $28,493,000, or a gain of $15,385,000, while imports from the Dominion rose less than $9,000,000. However, Canada has been particularly generous with her gold, shipping tremendous quantities of it into the United States where it can be sold to the Government at $35 an ounce. If gold were to be classed among other imports, the change in trade with Canada would be in favor of that country. Considering the serious question whether or not the gold we buy is worth the price we pay for it—or to put it more accurately, whethere the rate of exchange between goods and gold is advantageous to the United States—it is doubtful to what extent we have profited by the pickup in Canadian trade.

Exports to Japan were up 10 per cent in the last four months of the year, although in December they were slightly below the figure of a year earlier. The number one items of trade between the United States and Japan are eastbound silk and westbound cotton. Very conveniently for the Japanese, the price of silk managed to work up to a ten-year high while cotton during most of the year was in a buyers' market, priced at figures that required Government aid to the farmers in this country. The dollar totals show Japanese imports to the United States up in December and our exports to them slightly lower. What they do not show is that we were driving more of our astonishingly poor bargains in quantity of goods exchanged.

The question of price is of course an important one

in all of these international transactions. As in any other type of business deal, there is no assured profit in volume alone. Our exports for all of last year were 3 per cent higher than in the year before. But the volume of exports, as distinguished from the dollar value, was 5 per cent higher according to Department of Commerce calculations. Imports gained 18 per cent in dollars, but only 15 per cent in volume. *In other words, we reduced our prices, while the rest of the world charged us more for the things we had to buy.* Silk, wool and rubber were the principal items that turned the year's trade against us—not merely in reducing our "favorable" balance of exports over imports, but in leading us to give more goods for less.

The blame for this condition comes back to the thought that the United States is facing very determined competition in the markets it attempts to supply, while at the same time buying in markets which have lost part of their claim to the description "free."

War a Partial Solution

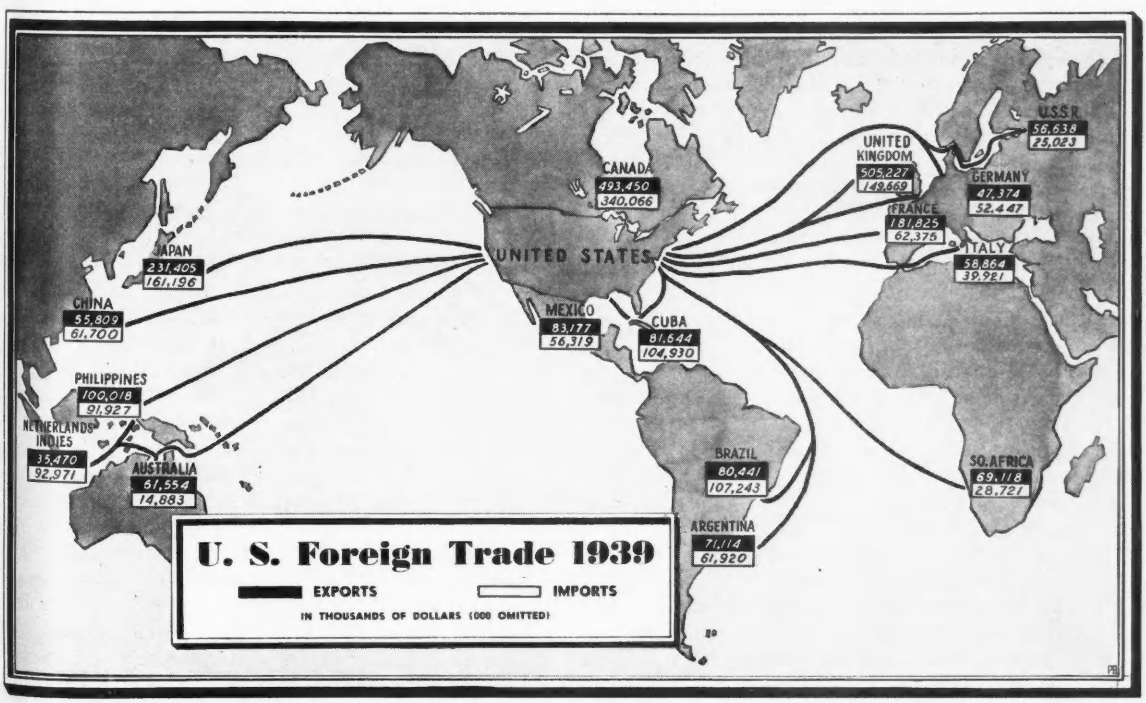
The war is an immediate cure for this condition, provided it is to be allowed to exert its normal effects. Temporarily at least, there will be considerably greater need for America than America has for the rest of the world. Perhaps in isolated lines there will be the chance for domestic manufacturers to do a little profiteering at the expense of their foreign customers. In the larger and more lasting sense, though, this is no part of a solution.

The possibilities for the immediate future are as complicated as a chess game, where each alternative move offers the opponent several choices and each of those opens up a new line of play with subsequent variations. Suppose, for example, that England is forced or considers herself forced to subsidize exports to this country and also incidentally to our promising South American markets. American law makes necessary the imposition of countervailing duties—the same as those we placed on German goods some time before war broke out. Is it conceivable that we can take such a step, equivalent to supplying Germany with its most important victory of the war to date?

Or take a completely different case. Russia, Italy, Switzerland, the Netherlands and the Scandinavian countries have been showing an increasing desire for our goods ever since the war began. Switzerland in January bought almost four times as much as a year earlier, Norway almost three times as much; Italy doubled her purchases and the Netherlands almost did so; Russia has been voraciously taking all she could get of certain products. Some of the neutrals have excuses for a part of the jump, due to elimination of other supply sources, but there is good ground for suspicion that the Russians and the Italians, at least, have a customer in the background whose first name is Adolf.

On the reasoning that any purchasers with money should be accommodated, it seems against our best interests to object to Italian or Russian takings of American exports, regardless of the ultimate destination. Yet there is a strong section of opinion which may be perfectly right in holding that shipments which can aid Germany should be prevented. Stop this trade, then run into the difficulty with England already discussed, prohibit shipments to Japan because of our sympathy with China, lose China as a customer when Japan blockades her coast in retaliation, force keener competition in South America—this economic warfare spreads more rapidly than the military type. It is easier to start and will probably be harder to stop.

The way to avoid it seems (*Please turn to page* 642)



Unfavorable Factors Are Seldom Obvious

Watch the Business Danger Signals

BY JOHN D. C. WELDON

THE title of this article happens to be a pretty sound bit of advice but it also raises some posers. Watch the danger signals to be sure, but what danger signals? Out of the welter of current statistical and other data bearing on the business situation, which are most significant and why? These are entirely legitimate questions and are the constant concern of every practical economist and business forecaster. Any worthwhile degree of success in the difficult but fascinating game of beating the business cycle depends on finding the correct answer. What makes that quite a trick is that the answer is forever changing.

No two depressions ever arose from quite the same combination of circumstances. Yet hindsight reckoning with respect to past cycles is not without value. For while precisely the same *combination* of circumstances is never repeated, many an individual circumstance bobs up time and again. Let's have a look at some of the more important slumps of the past two decades, beginning with that of 1937-38.

Of the chief factors contributing to the collapse of two and a half years ago, an unprecedented proportion were of Government origin. Deflationary steps on the part of Washington have been a usual prelude to major downturns since the war—they were taken in 1920, 1923 and 1928-29—but those preceding the last depression were remarkable in their scope.

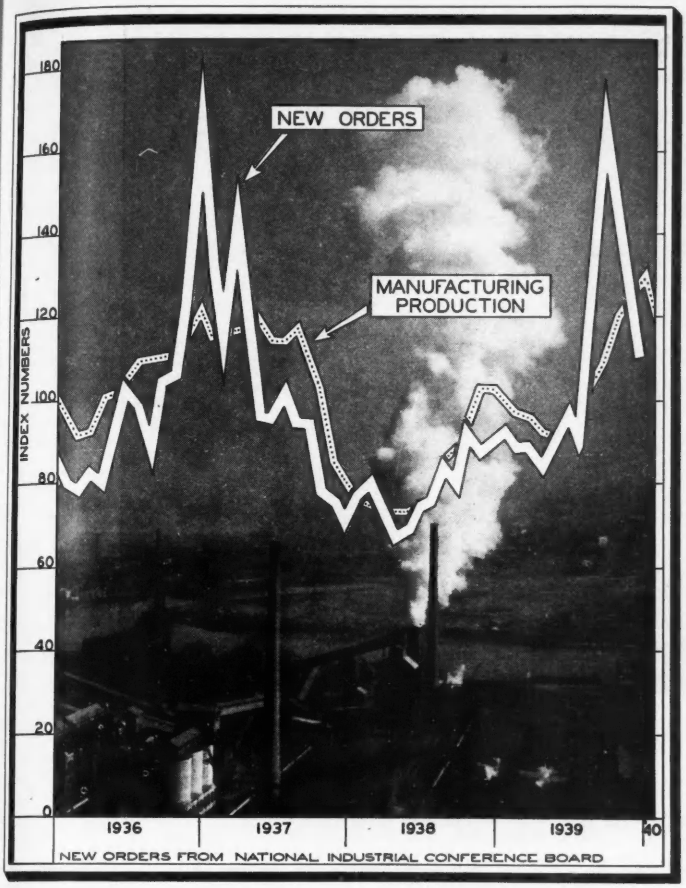
In the first place, there was the matter of taxes. Beginning with the Revenue Act of 1934 (capital gains) and culminating in the Act of 1937 (personal holding companies), a series of tax measures were enacted that could scarcely have been more injurious to the spirit of business enterprise and risk taking had they been designed for that one specific purpose. No one of these measures was the straw that broke the camel's back but, like the many other hostile acts and gestures of Government toward business in this period, they combined to render the situation vulnerable to the influences of a number of more directly responsible forces.

Among the latter, fiscal and credit developments are worth noting. The soldiers' bonus, it will be recalled, was paid in June, 1936, creating a tremendous hump in the Government's net cash outlays at a point well advanced along the curve of cyclical recovery. This was all wrong from the standpoint of "compensatory fiscal policy" (Congress, with the bit in its teeth, can upset the best laid schemes of any group of planners), and made the economizing that followed seem like a very strong dose indeed; due partly to the incidence of the social security tax at the beginning of 1937, a Federal cash deficit of nearly $1.7 billions in the second quarter of 1936 was converted into a cash surplus of over $140 millions by the third quarter of 1937.

In the realm of credit control, the Government's first deflationary move was to raise Federal Reserve member bank reserve requirements 50 per cent in the summer of 1936. Concurrently, New York banks began liquidating their bond portfolios, especially Governments, and, after the usual lag, were joined by the interior banks around the turn of the year at which time, incidentally, action was taken to sterilize further Treasury acquisitions of gold so that the continued influx from abroad would not be added to the credit base, thus offsetting the effect of the increase in reserve requirements. The selling pressure of the banks was sufficient to turn the bond market downward in January, 1937, and a rather severe break occurred in subsequent months accompanied by a minor hardening of short term money rates in the New York market. Despite these developments, reserve requirements were hiked another 33-1/3 per cent that spring.

Weighing Specific Developments

It would be easy to attach more importance to these events than they deserve. The reduction that occurred in the Government's net contribution to the nation's spending was spectacular, but the entire contribution itself, even at its maximum, had been so small in relation to the country's total business turnover—probably not more than 2 per cent—that its elimination could not, per se, have mattered tremendously. It is worth noting, too, that despite declining Federal expenditures, consumer income was on the upgrade until September, 1937. All in all, it must be concluded that the reversal of Federal fiscal policy in 1936-37 was important mainly from a psychological standpoint. As to credit control, through it resulted in nothing even remotely resembling a tight money situation, the steps taken were of somewhat greater significance insofar as they prompted bank liquidation of investments, the consequent bond market



break and a major deflation of the nation's bank credit.

But of more interest, perhaps, than any of the foregoing developments is what happened to commodity prices and corporate inventories. The renascence of the long depressed heavy industries in the summer of 1936 had uncovered something of a bottleneck in the production of certain industrial raw materials. This situation, together with worldwide armament buying and speculation arising from it, started commodity prices upward in the fall of the year. As the bulge continued, industrial purchasers, fearing that prospective labor troubles might tie up raw material sources and in many cases believing that galloping inflation, heralded since 1933, was here at last, loaded up rapidly and heavily. Inventories were badly inflated, rising far above 1929 levels before they finally began to decline in the fall of 1937. Significantly, raw material commodity prices had topped out six months before and by June new orders of industry had fallen far below the current rate of industrial production which was maintained until fall solely on the strength of previously accumulated backlogs.

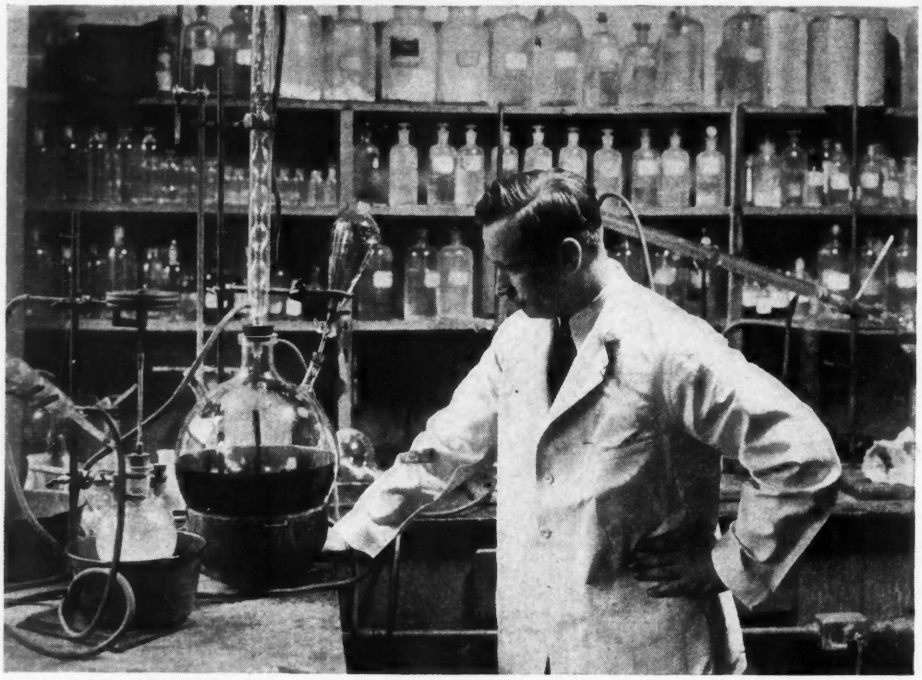
To complete the picture, there was the labor situation. The year 1937 got off on a sour note with the General Motors strike, a vote by the railroad brotherhoods to demand a 20 per cent wage increase and widespread indications of more and worse troubles to come. Come they did, at length culminating in the "little steel" strike early that summer. Labor costs per unit of output continued to rise until the end of 1937 by which time they were up about 34 per cent from year earlier levels. The delicate cost-price mechanism of industry had been thrown completely out of kilter several months earlier. The collapse of the stock market in September finally signalized the advent of depression for the last doubting optimist.

The great depression of 1929-32 differed widely in scope and background from the more recent affair described in the preceding paragraphs. At the same time, several of the danger signals that foreshadowed it were markedly similar to those appearing in 1936 and the forepart of 1937.

We have already noted that every depression worthy of the name within the past twenty years has been preceded by positive deflationary tactics on the part of the Government. Corresponding to the raising of stock market margin requirements, member bank reserve requirements and the sterilization of gold in 1936-37 were the moves, mild and timid though they were, of the Federal Reserve in 1928-29; between January and June, 1928, the Reserve Banks sold over $400 millions of their security holdings in the open market, and between January, 1928, and August, 1929, rediscount rates were raised from 3½ per cent to 6 per cent—with rediscounts hovering around $1 billion and call money bringing 9 to 15 per cent, these steps were piteously inadequate, but they did represent at least some sort of feeble effort on the part of Washington to hold the boom in check. And as occurred with President Roosevelt's dampening remarks anent commodity prices in April, 1937, psychology was also resorted to in 1929; Secretary Mellon's sally—"Gentlemen prefer bonds"—remains a classic.

Probably the most consistent harbinger of depression since the war has been a falling bond market. It turned downward early in 1928 and, interrupted only by a minor rally in the fall of that year, declined persistently until the final crash of stock values in late 1929. Similarly, bonds turned lower in September, 1922, preceding subsequent peaks in stock prices and industrial production by six months. Again, they were declining throughout 1919 though the stock market did not top out until November of that year nor industrial production until the first quarter of 1920. Sharply rising commercial paper rates from late 1919, late 1922 and early 1928 told the same story as bond prices. Something of the sort also occurred in early 1937, though on a very minor scale, the open money market having by then become a sort of vestigial organ of our financial system.

As was the case in 1937, rising material and labor costs figured prominently in the periods leading up to earlier depressions though neither was a factor in the 1929 downturn which followed an irregularly declining trend of commodity prices and unit wage costs that had been under way for a number of years. The years prior to 1920, however, had seen one of the greatest commodity price sprees in history and, following the crash which terminated in mid-1921, commodities (*Please turn to page* 645)



Courtesy Goodyear Tire & Rubber Co.

Research Profits

Last Year Industry Spent $215,000,000 on Research—Here Are Some of the Things It Is Getting for Its Money

BY HENRY D. STEINMETZ

LATE in 1914 a German submarine commander slipped through the British blockade and brought his craft into Baltimore with a heavy cargo of dyes and medicinals which were immediately sold at sky-high prices. It couldn't happen today.

Why it couldn't happen is obvious enough—this country is now almost completely self-sufficient with respect to every major product of manufacturing. As for raw materials, the list of things we must import in quantity is steadily shrinking. In even the short space of the past few years we have become at least potentially independent of foreign supplies of such items as potash, manganese, tung oil, vanilla, rubber, silk, tin and wool. But progress toward national self-sufficiency is only an incidental aspect of something much larger—an unfolding frontier that promises more jobs for labor, bigger dividends for investors and an all-round higher standard of living.

The story behind it all—and it is a continued story with the most exciting installments yet to come—is one of conquest, but not of lands and men. It is a conquest, rather, of atoms and ideas. The battle lines are drawn in some 2,000 industrial laboratories and pilot plants in this country alone, the soldiers are 50,000 scientists, engineers and researchers, the weapons are curiosity, ingenuity and perseverence.

Applied research on an important scale is a comparatively recent development, having come into being only within the past two decades. In 1920, according to the National Research Council, less than 8,000 persons were engaged in research. By 1927, however, the number had jumped to 17,000 and by 1938 to 42,000. But progress has been far from uniform among various industries.

Since 1927, research activity, as measured by the number of research employees, has scored the greatest percentage gain in the radio industry where, incidentally, a technological revolution of the first importance is currently brewing. Other rapid gainers have been the oil, textile, food and machinery industries, though only the first and last named of these have yet won a place among the research leaders of today. Still tops by a wide margin are the chemical companies with oil next

and then, in order, electrical equipment, machinery, rubber and communications.

But though these industries are the leaders in research, they have no monopoly. More and more the laboratory is becoming recognized in all fields as the incubator of future profits. It holds the answer, moreover, to those apologists of Government-in-business who claim that this country matured economically when it matured geographically. That answer was apparent even in the 'twenties though it was then widely misconstrued as insurance against cyclical depression rather than evidence of continuing secular growth.

Research Babies of the Twenties

For the 'twenties had their full share of young industries whose existence was in no way dependent on a physical frontier, either expanding or static. The automobile, mechanical refrigeration, electric power, telephone, motion picture, chemical, aviation and radio industries were major contributors to the general prosperity of the years which saw the most rapid phase of their development, and yet none of them can be considered old today. Some, indeed, currently offer as great or greater promise of future important development as they did ten or fifteen years ago.

It is only within the past decade, for example, that the potentialities of organic chemistry have begun to become apparent. The synthesis of raw materials from coal, oil and living matter has already progressed to a point where rapidly declining dependence on some of our oldest natural raw materials is indicated. Silk, already on the way out as a result of its replacement for many uses by rayon, may vanish almost altogether with the commercialization of Nylon and Vinyon. And quite a number of wool substitutes, often superior in important respects to natural wool, have been developed from soybeans, corn, milk and other organic sources.

Perhaps the biggest recent news of all in the field of synthetic organic chemistry is Standard Oil of New Jersey's acquisition of the American production rights to "buna," the German synthetic rubber, and the company's plans for an initial plant costing about $1,000,000 and capable of producing 2,000 tons of the new product annually. In relation to ultimate possibilities, this will be but a modest beginning since it is estimated that plant facilities sufficient to supply the 600,000 tons of crude rubber this country consumes annually would cost from $75,000,000 to $100,000,000.

Buna is reputedly superior for most uses to natural rubber. Automobile tires made from the synthetic material, for instance, give 20 to 30 per cent more mileage. As for cost of production—main drawback in the case of du Pont's Neoprene and other synthetic rubbers developed heretofore—buna can be turned out for a little less than 20 cents a pound, slightly more than the average price level of natural crude in recent years but about on a par with current quotations. Chief raw materials are air and oil. The latter, thanks to the new catalytic refining processes, is now an economic source of a by-product gas called butadiene which, when combined with another oil derivative, acrylic nitrile, yields the base material for buna.

The new horizons that are appearing in the chemical industry are not confined entirely to the field of organics, but there is not space here to cover even the latter adequately let alone explore the new avenues of profit that are opening up elsewhere. Let us leave chemistry, then, for a brief look into aviation and radio, also industries apparently as young today as they were ten years ago.

Aircraft manufacturing, of course, is going ahead by leaps and bounds, with war business stimulating almost daily innovations in military craft, the latest being Bell's "Aircobra." Similarly, the commercial air lines are at length coming into their own and there is no end yet in sight to their rapid growth and technical progress; TWA, for instance, will shortly initiate substratosphere flights. But it is in another division altogether that aviation is still truly an infant industry. That division is civil aviation and its symbol of progress is the "light plane," the sky flivver of which production last year jumped about 150 per cent over 1938.

The light plane—"light" referring not to the weight of the craft but to the wing loading—is designed to make flying reasonably safe and financially possible for anyone of ordinary means. It has a 40 to 65 horsepower engine and a landing speed of 35 miles an hour, costs from $1,100 to $2,000, gives better gasoline mileage than a low priced automobile, cruises at from 70 to 100 miles an hour and is easy to handle. Output of the industry last year was in the neighborhood of 4,000 units of which the largest producer, Piper Aircraft, accounted for some 1,700. Other leading light plane makers include Aeronautical Corp. of America (Aeronca), Taylorcraft, Luscombe and Porterfield. Engines are supplied mainly by Franklin Motors, Continental Motors and the Lycoming Division of Aviation Manufacturing Corp.

Revolutionary Developments in Radio

But if things are on the move in chemistry and aviation, neither are they standing still in radio. We have already noted that a revolution is brewing in the industry and that is no exaggeration of a development that bids fair to render obsolete $75,000,000 worth of present transmitting equipment and $3,000,000,000 in radio receivers. Object of all the excitement is the new Armstrong system of "frequency modulated" broadcasting, ultra short wave transmission that completely eliminates static and produces full, rich and natural tonal values. General Electric and several others have been licensed to build transmitters and receivers and at least twenty stations using the new system are now broadcasting or under construction.

Facsimile broadcasting has emerged from the experimental stage and Crosley Radio has a receiving set on the market at $80. The latter turns out printed matter at 40 words per minute, a rate that will undoubtedly be stepped up in later sets. Tuned in continually, it produces a running bulletin of spot news.

Television is also coming along rapidly. Radio Corp. has announced the conclusion of successful tests of automatic relay equipment that makes financially possible a countrywide telecasting network, something that was out of the question as long as it depended on the $5,000 a mile coaxial cable. Also promised before the year is out is "improved projection of large television images of a size adequate for theater (*Please turn to page* 641)

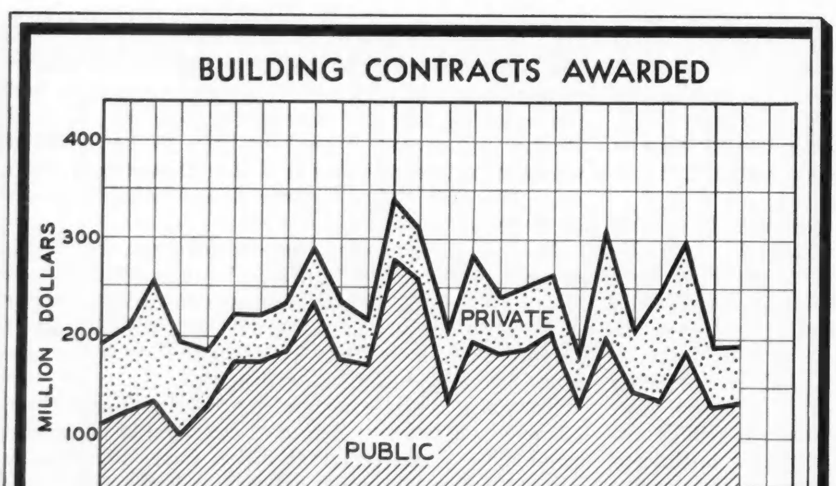
What's the Matter with the Building Shares?

Despite 1939 Gains in Construction, the Industry Is Puzzled Over Current Trends

BY WARD GATES

THE experience of the building industry itself, acquired during the past eighty years, may offer a clue as to why the market prices of the building supply companies' shares apparently refuse to recognize the industry's good earnings of last year and the confident predictions that there is sufficient demand to warrant at least an increase of approximately 10 per cent in the value of new construction this year.

Close observation of the rise and fall of building operations since before 1860 indicates that there is a broad cyclical trend in construction volume. These cycles appear to average about 18 years from peak to peak but the recovery phase of the cycle covers less than 40 per cent of the cyclical period. Both the recovery and decline phases are affected by the condition of general business but declines in business activities have usually been preceded for some time by lessening building volume while the pace of rising construction volume has consistently lagged behind general business gains.



Then too, any great war—whether we are actively engaged in it or not—has cut short any private building operations although any subsequent peace has usually been followed by sharp booms in building.

Just prior to the American War between the States, there was an increasing demand for new housing and commercial facilities. The declaration of war interrupted the uptrend in building operations so sharply that there was a virtual cessation of non-residential construction in 1861, and by 1863 residential construction declined so precipitously that the gains of the past ten years were wiped out. After peace had been declared, however, building operations increased sharply, reaching a peak in 1870—about five years after the boom started. From 1870 on followed the first "long depression" of the seventies which terminated in 1879. A mild recovery in building set in about 1880 but again, eight years later, there were strong indications that some reversal in the general prosperity which had prevailed since 1880 was about due. The reversal did actually appear in 1893—a panic year—but by that time, building activity was well on its way down, not to recover fully until the upward cycle began again in about 1903. This upswing—set back only slightly by the panic of 1907—reached a peak in about 1909 but held close to the top, reluctant to decline sharply until 1914 when the outbreak of the World War brought residential building almost to a standstill. The end of the war brought a construction boom of unprecedented proportions which culminated to all intents and purposes in about 1926. The down trend in building activities was clearly apparent long before general business activities and national prosperity topped out in 1929. The pattern of the recov-

ery in building activities, started in 1932, is so startlingly similar to those of previous recoveries that there is considerable cause to wonder why the building shares have been making a poorer than average market showing, since their cyclical peak would ordinarily occur several years from now.

The "whys and wherefores" of these cyclical swings and their timing are many. They include obsolesence of existing structures, the periodic inadequacy of housing facilities to meet the needs of a growing population, costs of materials and labor, public income, degree of confidence in the future and—perhaps as important as any of the purely economic reasons — changing fashions in both exterior design and labor saving or comfort promoting equipment. The interrelation of these and many other factors is highly complex; too much so to analyze fully in the space available for this discussion. Suffice it to say that they do exist and each exerts its own varying influence upon the entire structure.

Nesmith

With the assistance of the Federal Government, many slums in our most densely populated cities are being eliminated, some areas are being utilized for city improvements such as parkways and arterial highways, and others for new housing projects.

The foregoing is the broader factor upon which the uncertainty as to the nearer term outlook for future of the building industry is based, but there are other—not so academic—developments which are making for hesitation upon the part of the investor to purchase the building supply companies' shares.

Costs Are Almost Inflexible

One of the more unfavorable aspects of construction has been the almost complete inflexibity of construction costs. While the upward pace of building activity has consistently lagged behind that of general business, building costs have just as consistently followed closely general business gains. To the actual costs of construction, the generally accepted index of building costs, must also be added the cost of the land to be used, the cost of the money borrowed to finance the venture and maintenance cost which include taxes.

Through the operations of such government agencies as the F H A, the cost of hiring money has been reduced sharply and such former evils as the second, and even the third, mortgage have been eliminated. Prices of land are, of course, relative since it is not likely that a modest home will be built upon a high priced plot nor is it probable that a pretentious residence would be placed upon a plot in a low priced neighborhood.

Unfortunately—for the building industry—financing costs are the only costs which are appreciably lower than those which prevailed during the height of the previous building boom. In 1926, the index of construction costs —as compiled by the "Engineering News-Record"—reached a monthly high record of 210.8 and averaged 208.0 for the year. The 1926 high mark was not exceeded through out the depression period although the lowest point touched was 152.2 in June, 1932. From then on, coinciding with industrial recovery, costs rose constantly in each year to November, 1939, when the cost index stood at 238.20, 13 per cent higher than in the previous boom peak and about 56 per cent higher than the 1932 depression low. The increase in the construction costs index becomes more significant when it is observed that the wage rates for both skilled and common labor are currently higher than in any previous year; even higher than in 1930, the previous peak year.

Some relief from excessively high labor costs is likely during the next year but any decreases that may accrue will probably be the result of factional disputes within the labor unions arising from the strong efforts of both the C I O and the A F of L to obtain tight control of our largest and most influential industry. Whichever faction may happen to win, it is not likely that the benefits will be permanent since higher wages and shorter hours are the most attractive inducements that unions have to offer to maintain their membership.

Material prices are higher in some instances but the increases have not been anywhere near as large or sharp as labor costs. For instance, cement prices rose about 3 per cent above 1938 prices but they continue to compare very favorably with the 1932 low price and are still well below those of 1926. Asphalt, used in roofing materials and for roads, was actually lower last year than in 1938. Paint prices rose moderately late in the year but only because of war conditions which increased the cost of paint makers' raw materials. Lumber prices also advanced but were less than 3 per cent above 1938 levels and were about unchanged from those levels which prevailed during the previous *(Please turn to page 644)*

Annual Dividend Forecast

Part III — Merchandising, Building Materials, Oils, Metals, Miscellaneous Issues.

As we swing into 1940 investors are confronted with three circumstances which make the general outlook for the year uncommonly difficult to appraise. First, the Federal Reserve Board index of industrial production closed the year 1939 at a level above that of such peak years as 1919, 1923, 1929 and 1937. Both because of the height reached and the speed with which it was attained, some degree of reaction within the first half of this year seems a virtual certainty. Second, and greatest of all 1940 investment uncertainties is the war. Third, we face a notably important political campaign and election.

If there is one outstanding characteristic of the security markets and of 1940 corporate financial policy it is caution and conservatism. We can doubtless expect this to be reflected in dividends, although for the coming half-year we can probably expect the general run of payments at least to better those of the first half of 1939.

Part III of our Annual Dividend Forecast is here presented, covering the industries listed at the top of this page. Part II was presented in our issue of February 10, and Part I in our issue of January 27.

The tables are accompanied by our investment ratings, explained at left. Issues with unbroken dividend records for ten years or more are marked with an asterisk. Issues recommended for safe income are noted with a star. Issues favored for cyclical appreciation potentialities are marked with a dagger symbol, but, of course, timing of any purchases should accord with advices given in our general market article, a regular feature in each issue.

Two fundamental factors, the industry and the company itself, are used to form our ratings. The letters, A, B, C, D, are used in connection with the industry according to the current and prospective activity in the field. These letters are not concerned in any way with individual companies. The numbers, 1, 2, 3, 4, are used for rating the company on its earning power, current and prospective.

INDUSTRY	COMPANY
A—Active, further progress indicated.	1—Good earning power; substantial gains indicated.
B—Active, further progress may be slow.	2—Improvement in earnings expected.
C—Depressed, prospect for recovery favorable.	3—Gain in earning power may be slow.
D—Depressed, no nearby improvement indicated.	4—Earnings outlook unfavorable.

Retail Trade Gained Sharply Last Year

Business Volume Continues at Satisfactory Levels

According to the Department of Commerce, retail sales in the United States for last year totaled about $38,000,000,0000, or approximately $2,500,000,000 more than in 1938. There was little difference in prices between the two years, so that the increase in dollar sales virtually represents an increase in physical volume. The gain, however, was largely concentrated in the field of consumers' durable goods. Furniture and electrical appliances made an excellent showing, although building materials and hardware were not far behind. Mail order sales established a new all-time high at a figure about 12% ahead of 1938. Sales of variety stores were about 5½% greater than in 1938. As might have been expected, retail businesses handling such stable lines as food and drugs had a sales volume in 1939 that was but slightly above that of 1938.

The financial results of last year's upturn in volume may be seen in the accompanying table. With few exceptions, earnings gained substantially and stockholders benefited through increased dividends and extras. Although they have naturally increased in price, the stocks of many merchandising companies still afford a reasonable return on the money invested in them. Moreover, when one considers the number of companies that have paid dividends without interruption for ten years or more, it is evident that the group is one affording a high degree of stability in regard to income.

Currently, retail trade prospects

are good. While there has been a definite slowing down in a number of important fields, it has not as yet affected retail trade, despite predictions to the contrary. Mail order sales in January gained over January, 1939, at about the same rate as previous months gained over the corresponding periods of 1938. In the New York district department store sales in January were about 10% larger than in January, 1939, while other important districts are making an even better showing. Parts of the South have been exceptional in that their sales have been actually lower than they were last year. Unless, however, there should be no recovery, this may be attributed to the exceptionally cold, unseasonable weather which befell the South during January.

Nevertheless, while the current prospects for retail trade are good, it would be foolish to ignore the fact that this business is inextricably bound up with the business of the country as a whole. In other words, retail trade may be able to ignore some recession in general business for a time, but it cannot help but feel the effects of any such recession should it last. Hence, the outlook for retail trade really becomes the outlook for business as a whole. It is our opinion that while our own domestic political uncertainty, coupled with the uncertainty that surrounds the war abroad, will tend to make for some further decrease in business activity from this point, nothing in the nature of a serious slump threatens and that the recovery during the second half of the year may be more rapid than is generally expected.

So far as factors particularly affecting retail trade are concerned, they are, on the whole, favorable. Present inventories are not excessive. Indeed, towards the close of last year business was actually lost because of a shortage of goods and the same thing happened more recently during the spell of cold weather. As for prices, while they trend somewhat higher, there has been no such advance as might alarm consumers and a number of organizations are on record as looking with disfavor upon anything in the nature of profiteering. At the present time there seems to be little chance that the movement of prices, either up or down, will be an upsetting influence in retail trade. Finally, anti-chain-store agitation appears to be less intense than in the recent past. Nor is there the same power behind legislation that might interfere with the distribution of goods in other ways. On the other hand, the trend of expenses, particularly taxation, continues upwards. This last, however, will hardly be burdensome so long as volume remains at reasonably satisfactory levels.

Position of Leading Merchandising Stocks

Company	Earned Per Share 1938	Earned Per Share 1939E	Price Range 1939 High	Price Range 1939 Low	Recent Price	Divs. Paid 1939	Market Rating	COMMENT
Allied Stores	.59a	1.20a	11⅜	6	9	....	B-2	Earned $1,600,000 before taxes in nine months to Oct., last, compared with $748,000 for previous period.
American Stores	.04	NF	14½	8¼	13	.50	B-2	Dividends resumed. Should continue to pay something.
Arnold Constable	.85a	NF	13	7½	10	.75	B-2	25 cents paid Jan. 25.
Ass. Dry Goods	nil a	NF	10⅜	5⅝	8	....	B-2	May start soon to liquidate arrears on 2nd pref.
★*Best & Co.	3.35a	3.60a	57½	32	38	1.85	B-2	50 cents quarterly appears well within earning power.
Fed. Dept. Stores	2.45a	NF	27½	18¾	23	1.00	B-2	Earnings seem to justify higher rate
★*First Nat'l Stores	3.14b	3.38b	51	38⅛	45	2.50	B-2	No change in 62½ cents quarterly expected.
Gimbel Bros.	nil a	NF	13⅞	6¼	8	....	B-3	Dividends may be delayed.
*Grant, W. T.	2.03a	NF	35	24¾	34	1.65	B-2	Last year's sales at record breaking levels.
Green, H. L.	2.83a	NF	35½	24¼	34	2.30	B-2	50 cents plus 50 cents extra paid Jan. 18.
Interstate Dept. St.	def.a	NF	14¾	7⅞	10	....	B-2	Probably will report "black" figures for the year just ended.
★*Jewel Tea	5.09	5.65A	89½	68	92	6.00	B-2	To pay 100% in stock.
*Kresge, S. S.	1.63	1.89A	26⅜	20	26	1.20	B-2	30 cents plus 15 cents payable Mar. 13.
*Kress, S. H.	1.37	1.92A	29¾	23¾	26	1.60	B-2	Continuance of 40 cents quarterly likely.
★*Kroger Grocery	2.05	3.02A	29⅝	20¼	29	2.50	B-2	Dividends and earnings jump sharply.
Lerner Stores	2.39a	NF	32¾	23	28	2.00	B-2	Earnings for last year expected to show large margin for 50 cents quarterly.
Macy, R. H.	1.42a	2.10a	43½	25¼	29	2.00	B-2	Departs from famous "cash" basis.
Marshall Field	1.04	NF	17¾	9¾	14	.30	B-2	Liquidates preferred arrears and pays on common.
★*May Dept. Stores	3.09a	NF	53¾	40¾	53	3.00	B-2	May pay more than 75 cents quarterly.
McCrory Stores	1.48	1.95A	17⅜	9¾	16	1.00	B-2	Declares year-end dividend and 25 cents payable March.
McLellan Stores	.93a	1.20	10⅝	6⅝	8	.60	B-2	Might pay more this year.
★*Melville Shoe	3.59	NF	72	46	32	4.00	B-2	Doing well. Drastic change in capitalization.
Montg. Ward	3.50a	4.50a	57¾	40⅛	53	1.25	B-2	Payments much below estimated earnings.
*Murphy, G. C.	4.77	NF	70½	50	72	3.25	B-2	Sales for last year about 12% ahead of 1938.
National Tea	def.	def.	5⅜	2⅝	4	....	B-4	Dividends likely to be delayed.
*Newberry, J. J.	4.04	NF	42	32	41	2.00	B-2	May pay more than 50 cents quarterly.
★*Penney, J. C.	5.40	NF	94¾	74	89	5.00	B-2	Anticipate further extras in addition to 75 cents quarterly.
★*Safeway Stores	4.02	6.61A	51¾	27¾	50	2.50‡	B-2	Income and sales highest in history for last year.
Sears, Roebuck	4.17a	7.50	85⅞	60¼	84	4.25	B-2	Last year's sales set record.
*Shattuck, F. G.	.43	.30	11¾	6½	7	.40	B-3	Lower earnings are estimated for last year.
Spiegel, Inc.	.91	1.00	15½	8¼	10	.30	B-2	Paid 15 cents on common Feb. 1.
*Woolworth, F. W.	2.95	3.02A	50⅜	36	41	2.40	B-2	War effects on foreign subsidiaries complicate outlook.

E—Estimated. NF—No estimate possible. a—Year to Jan. 31, '39. b—Year to April 1. A—Actual earnings. ‡—Plus payment in stock. *—Uninterrupted dividends over 10-year period. ★—Recommended for income.

Position of Leading Building Stocks

THE total volume of construction last year was about 6 per cent greater than in 1938. There were, however, wide variations among the different divisions that make up the building industry. The best showing was made by residential construction, followed by public works. Residential construction was about 35 per cent ahead of the previous year.

Towards the close of 1939 important changes took place. Activity in public works declined, while commercial building which had been more-or-less dormant came to life. The reasons for this are quite clear. One by one, P.W.A. projects were completed and new ones were not commenced to offset the declining activity. This accounts for the decline in public works. On the other hand, commercial building was stimulated by the near-boom which came into being towards the end of the year.

From the standpoint of companies catering to the building industry, 1939 must be considered to have been reasonably satisfactory. Earnings for the most part were moderately ahead of 1938 and stockholders received proportionately larger dividends. Unremunerative prices which are so often a problem in many lines of building materials were not the adverse factor that they have been at times.

The consensus of informed opinion in the building industry is to the effect that residential construction this year will register further gains and be about 10 per cent ahead of 1939. Optimists point to a continuance of F. H. A. activity and to calculations which purport to show that there still remains an enormous lack of suitable housing. On the other hand, those more pessimistically inclined doubt that there is any such need for additional residential construction and stress the fact that there are no signs of soaring rents which is the best single indicator of a housing shortage.

Probably a great deal depends upon the course of general business from this point and, possibly even more important, whether or not there develops a rift in the clouds of uncertainty. It is true that men buy homes out of their wages and with their savings, but experience shows that unless they are reasonably sure of economic stability they are disinclined to assume long-term obligations.

Company	Earned Per Share 1939	1939E	Price Range 1939 High	Low	Recent Price	Divs. Paid 1939	Market Rating	COMMENT
Alpha Port. Cement	.37	1.50	19⅞	12¾	14	1.00	B-2	Should not be difficult to maintain 25 cents quarterly.
Am. Encaustic Tiling	def.	NF	5⅜	2⅜	3	....	B-3	Last year will prove to have been profitable.
American Radiator	def.	.40	18⅜	8½	9	.30	B-2	Probably will make additional payments from time to time.
Armstrong Cork	.77	NF	58	31¾	40	2.00	B-2	May well pay even more this year.
Celotex	.58a	.93a	19⅛	7⅞	12	....	B-2	May make some distribution before long.
Certain-teed Prod.	nil	.25	13	5⅛	8	....	B-2	Large accumulations on the pref.
Congoleum-Nairn	1.02	1.70A	30⅜	19	24	1.50	B-2	50-cent extra at the end of last year reflects increased earnings.
Crane	nil	NF	38	16	23	.60	B-2	Expected to make further payments from time to time.
Devoe & Raynolds "A"	def.b	2.05b	32⅜	18	21	....	B-2	Dividends resumed. Should continue.
Flintkote	1.21	2.00	31½	15	20	1.00	B-2	Does better. Year-end dividend raised.
General Bronze	.23	NF	5¼	2½	3	....	B-3	Not a near-term dividend prospect.
Holland Furnace	2.53	3.00	51	29¼	32	2.00	B-2	Expected to continue 50 cents quarterly.
Johns-Manville	1.09	NF	105	59	72	2.75	B-2	Calling part of the outstanding preferred.
Lehigh Port. Cem.	.63	2.80	25	17	22	1.50	B-2	Further extras in addition to 37½ cents quarterly expected.
Lone Star Cement	3.02	3.53A	62	38½	44	3.25	B-2	Regular 75 cents quarterly appears well assured.
Masonite	1.95c	1.99c	57½	30	38	1.00	B-2	Regular 25 cents and 25 cents extra payable March.
Minn-Honneywell Reg.	1.41	2.20	85½	44¼	50	2.00	B-2	Should continue to pay at least 50 cents quarterly.
Nat'l Gypsum	.49	1.00	16⅞	8¼	12	.25	B-2	Pays initial dividend. There should be further payments with continuance of earning power.
*Otis Elevator	.76	1.30	27⅛	15⅝	17	.90	B-2	15 cents payable March. Likely to pay more later on.
*Paraffine Cos.	2.44d	2.80d	60½	35	43	2.25	B-2	Raises dividend in line with increased earning power.
Penn-Dixie Cement	nil	NF	5⅝	2½	3	....	B-3	Large arrears on the preferred.
*Ruberoid	1.30	1.80	34	15⅝	19	1.10	B-2	Will continue to pay in accordance with earning power.
Sherwin-Williams	2.42c	5.96c	113½	81	90	2.75	B-2	Outlook good. Likely to pay even more this year.
Thermoid Corp.	nil	.60	6	2½	4	....	B-3	Reducing arrears on $3 preferred.
*U. S. Gypsum	3.50	6.00	113	65¼	86	4.00	B-2	Both earnings and dividends rise sharply.
*Yale & Towne	.14	NF	33¼	18¾	23	.75	B-2	Should maintain a rate of at least 15 cents quarterly.

E—Estimate. NF—No estimate possible. a—Year to Oct. 31. b—Year to Nov. 30. c—Year to Aug. 31. d—Year to June 30. A—Actual earnings. *—Uninterrupted dividends over 10-year period.

For other types of construction the outlook is even more clear-cut. It is possible that the Government further yet another P.W.A. program, but it does not appear likely. Hence it must seem that the low point in public works has not as yet been seen. Industrial and commercial construction will remain reasonably active for a time working on the backlogs that exist in this field, but the volume of new contracts depends entirely on the course of general business.

Government investigation of building still continues. A number of labor unions and their leaders have been cited for monopolistic practices. And the same fate has befallen a number of building material companies. Should the government eventually succeed in bringing about a material reduction in construction costs, it undoubtedly would have a tendency to stimulate activity. At the same time, if such a reduction in costs were brought about at the expense of the building supply companies, rather than at the expense of labor, the earning power of the latter might be seriously affected.

Position of Leading Oil Stocks

The year which has just passed was not a particularly happy one for the petroleum industry. Despite the fact that the consumption of oil and its derivatives established new all-time high records, profits for many companies were below those of 1938. Nor was the poor showing due to any violent excess of production, for this failed to come up to the record established in 1937.

Oil company profits would have been worse than they actually were had it not been for the recovery which took place towards the end of 1939. The industry got away to a poor start. Crude producers continued to be adversely affected by the price reduction which was made effective at the end of 1938. At the same time, the margin between the price of refined products and the price of crude still remained disappointingly narrow. It was not until the last four months that refined prices recovered sufficiently for profits to be reasonably satisfactory.

Stockholders were less adversely affected by the decline in earning power—particularly during the first part of the year—than might have been expected. This, of course, is because most of the major oil companies have large financial resources and have long followed a dividend policy that has been most conservative.

Although the petroleum industry did much better in the last four months of 1939, the present position is not a thoroughly secure one. Gasoline stocks are excessive and, as they are likely to continue to rise until the end of March, it is clear that they will become even more burdensome. Refining activities might have been held in somewhat better check during the winter season had it not been for the great demand for fuel oil. As it is not possible to produce the latter without at the same time producing gasoline, the reason for the large gasoline stocks is at least partly explained. At the same time, it must be admitted that the refiners probably failed to do their best towards reducing operations

Company	Earned Per Share 1938	Earned Per Share 1939E	Price Range 1939 Hi h	Price Range 1939 Low	Recent Price	Divs. Paid 1939	Market Rating	COMMENT
†*Amerada	2.07	NF	74½	50	55	2.00	C-2	Recent earnings sharply lower, but no change in 50-cent quarterly expected.
Atlantic Refin	1.40	1.66A	24⅞	18⅛	23	1.00	C-3	25-cent quarterly seems well assured.
Barnsdall	1.26	.90	19½	11⅛	12	.90	C-2	Last quarter's dividend cut to 15 cent.
Consolidated Oil	.53	NF	9⅞	6½	7	.80	C-3	Does better, but further improvement needed to assure present dividend.
†Continental Oil	1.10	1.20	31½	19⅞	24	1.00	C-3	25 cents quarterly reasonably well assured.
Creole Petroleum	1.64	NF	28	16¾	22	1.00	C-2	Likely to pay at least as much this year as last.
Gulf Oil	1.43	NF	45⅛	29¼	37	1.00	C-3	No change in 25-cent quarterly expected.
Houston Oil	.83	NF	9⅜	4½	6	....	C-3	Dividend arrears n the preferred.
†*Humble Oil	3.98	NF	71	52½	61	2.00	C-2	Expected to report sharply lower earnings for last year.
*International Pet.	1.99a	NF	27½	17	18	1.75	C-2	Fiscal year changed to calendar year.
Maracaibo Oil Emp.	def.	N.	2⅛	1	1	....	C-3	Ma report small profit for last year.
Mid.-Cont. Pet	.56	1.00	18	11⅛	14	.60	C-3	Likely to pay as much this year as la.t.
Ohio Oil	25	NF	10½	6	7	....	C-3	Dividend passed, but did much better in last quarter, 1939.
Phillips Pet.	2.03	2.20	46½	31¼	40	2.00	C-3	Expected to pay at least 50 cents quarterly this year.
*Plymouth Oil	2.59	2.37A	24	17⅛	22	1.40‡	C-2	$1.4 in cash appears to be well within company's earning power.
Pure Oil	.38	.90	11¾	6⅛	8	.25	C-3	Resumes dividends with year end payment.
Seaboard Oil	1.52	1.30	24⅜	15½	18	1.00	C-2	Earnings lower, but 25 cents quarterly still well covered.
Shell Union	.72	NF	17¼	9⅞	11	.50	C-3	May pay more this year than last.
Skelly Oil	.27	1.99A	29½	15½	20	.75	C-3	Retirement of bonds and preferred proposed.
*Socony-Vacuum	1.29	NF	15⅛	10¼	11	.50	C-3	Might pay more than 50 cents yearly before long.
*St. Oil of Calif.	2.20	1.50	33⅝	24¼	24	1.10	C-3	Will continue to pay dividends according to earning power.
*St. Oil of Ind	1.82	NF	30	22¾	27	.25	C-3	Earnings lower, but regular 25 cents quarterly seems well assured
†*St.Oil of N. J.	2.86	NF	53½	38	44	1.25‡	C-2	Last year's earnings expected to be considerably better than in 1938.
St. Oil of Ohio	1.81	NF	32¾	17	30	1.50	C-3	Believed to have made gains last year.
*Sun Oil	1.07	2.74A	66	45¾	62	1.00	C-3	Stock dividend of 5% payable March.
†*Texas Corp	2.13	NF	50¾	32½	44	2.00	C-3	Should pay at least 50 cents quarterly this year.
Tide Water Assoc.	1.28	.90	14¼	9½	10	.80	C-3	Dividend reduced to 15 cents following drop in earnings.
*Union Oil of Calif.	1.47	1.10	19¾	15⅛	16	1.05	C-3	25-cent quarterly appears to be reasonably well assured.
Wilcox Oil & Gas	.52	.70	4¼	2⅜	3	....	C-3	May make some small distribution before long.

E—Estimated. A—Actual earnings. ‡—Plus payment in stock. a—Year to June 30. *—Uninterrupted dividends over 10-year period. †—Recommended for cyclical appreciation.

because of the expectation that the war would bring about a marked increase in export business. While such a demand may yet develop, it has not developed up to the present time. Hence, the existing price structure is precarious.

There are additional uncertainties of a political nature. The present Congress may well see a drive for Federal control of the petroleum industry. Also, an effort may be made to force disintegration of integrated oil companies. Of course, a tightening of state control, particularly in California and Illinois, would lessen the urge for Federal control but, even so, it is a fact that whenever there is political meddling in an industry it has a dampening effect upon a stockholder's enthusiasm.

Position of Leading Metal Stocks

Last year was one of promise and disappointment for holders of metal stocks. The period started poorly, but then there came the war and a boom of considerable proportions developed. There was a large element of speculation in it. Metal stocks in the hands of consumers were at a low level, while productive activities were on a curtailed basis. Thinking that the war would start on a large destructive scale and that the demand for metals of all kinds would be enormous, consumers rushed to replenish their depleted stocks. Undoubtedly, many went even further than this and took "long" speculative positions.

The effect of this was to move metal inventories from the hands of producers to the hands of consumers, lift production and raise prices, all of which was of benefit to many of the companies in the accompanying table. But the war has not developed as was thought and it is now a question (1) whether it will so develop and (2) whether, if it does, American producers of metals will be aided as much as had been expected.

These are points that can hardly be settled definitely. One may, however, point out that the United States is by no means the sole source of supply and that with their limited supply of dollars practically earmarked for airplanes and other material unobtainable elsewhere, the Allies will undertake large scale buying of metals here only as a last resort. That conditions are not what they were calculated to be during the speculative frenzy last fall, is to be seen in the price reductions that have been made recently. Copper which sold at 12½ cents a pound between October 5, 1939 and January 18, 1940, has been cut to 11¼ cents a pound. Zinc is off a full cent, while the price of lead was reduced the other day in the face of what had been considered an exceptionally strong statistical position.

Yet, if the prospects of the metal companies benefiting as a result of the war are not particularly bright, there is no reason to feel unduly pessimistic. Domestic consumption this year should be good and, provided the expected demand materializes, even present prices would make for reasonably satisfactory profits on the part of the more efficient companies. Finally, there is the fact that now that the stocks of most metal companies have retreated well below last year's high levels, they are selling at prices that largely disregard any war prospects that they once might have been thought to possess.

Company	Earned Per Share 1938	Earned Per Share 1939E	Price Range 1939 High	Price Range 1939 Low	Recent Price	Divs. Paid 1939	Market Rating	COMMENT
Alaska Juneau	1.05	.80	10	6¼	6	.80	B-3	Should be able to pay at least 15 cents quarterly.
†Alum. Co. of Amer.	5.13	NF	147	90	163	6.00‡	B-2	Last year's earnings may have established new high record.
Aluminium, Ltd.	15.87	NF	141	86	97	4.25‡	B-2	Doing well, but war factors complicate.
American Metal	1.73	1.80	40⅛	22⅝	24	1.00	B-2	25 cents quarterl seems well within the company's capacity.
Am. Smelt. & Ref.	3.24	4.30	63	35½	51	3.00	B-2	May pay more this year than last.
Anaconda Copper	1.10	2.50	40	20¾	23	1.25	B-2	Higher dividends reflect increased earning power.
★Cerro de Pasco	1.77	NF	52⅞	3?	39	4.00	B-2	Strong finances bolster safety of dividend.
Climax Molybdenum	3.12	3.80	60⅛	34⅝	38	3. 0	B-2	Moral export embargo complicating factor.
*Dome Mines	2.08	2. 0	34	20¼	22	2.00	B-3	Should continue payer of substantial divi ends.
Eagle Pitcher Lead	de .	NF	14¾	7½	10	.20	B-2	There were substantial profit; last year.
★*Homestake Mining	3.45	4.00	66¼	47¾	56	4. 0	B-3	Dividends are not threatened over the near-term.
*Howe Sound	4.55	5.25A	57	43	49	4. 0	B-2	Continues to do well despite unsatisfactory conditions surrounding some foreign properties.
Hudson Bay Mining	1.61	2.00	35¾	21¾	25	1.75	B-2	Should pay at least as much this year as last.
Inspiration Copper	def.	.70A	21	9¼	12	....	B-3	May make some distribution soon if improvement continues.
International Nickel	2.07	2.50	55¾	35	37	2.00	B-2	Does better, but war factors complicate.
†Kennecott Copper	2.10	3.00	46½	28	35	2.00	B-2	Should continue to make substantial payments.
★*Lake Shore Mines	3.86a	3.53a	50⅜	19 ½	22	3.75	B-3	Likely to pay at least 75 cents quarterly.
*Magma Copper	1.60	3.00	40	25⅛	35	2.75	B-2	Earnings better, but helped by non-recurring profits.
*McIntyre Porcupine	1.25	1.09A	59¼	39	43	2.00	B-3	Earnings may be maintained at a somewhat lower level.
Miami Copper	def.	NF	16⅞	6½	9	....	B-3	20 cents payable Mar. 1.
†*National Lead	.75	1.23A	27½	17⅞	20	.87½	B-2	Noted for conservative dividend policy.
†*N. J. Zinc	1.64	2.70A	76	46¾	60	2.50	B-2	Will do better if zinc prices recover as they are expected to do.
†Newmont Mining	4.55	NF	84½	57½	73	3.50	....	Proposing to pay 100% in stock.
†Phelps Dodge	1.71	2.40	47½	28⅛	37	1.50	B-2	Has good record. Continues to expand.
†St. Joseph Lead	.68	NF	49½	27¼	38	2.00	B-2	Dividends and earnings both jumped last year.
Silver King Coal	def.	.40	8⅞	4¾	6	.25	B-3	Prosperity depends upon government silver policy.
*Sunshine Mining	2.45	2.13A	11¾	7⅝	10	1.60	B-3	Longer-term outlook obscure.
*U. S. Smelting	4.68	7.00	68½	48	63	5.50	B-2	Dividends increased following rise in earning power.
Vanadium Corp	.63	NF	40	16	33	1.00	B-2	Expected to make at least another year-end payment this year.

E—Estimated. NF—No estimate possible. A—Actual earnings. *—Uninterrupted dividends over 10-year period. ★Recommended for income. †Recommended for cyclical appreciation. ‡Plus payment in stock. a—Year to July 31.

Position of Important Stocks Unclassified as to Industry

Company	Earned Per Share 1938	Earned Per Share 1939E	Price Range 1939 High	Price Range 1939 Low	Recent Price	Divs. Paid 1939	Market Rating	COMMENT
★*American Can	4.35	6.22A	116½	83¼	115	4.00	A-3	May pay an extra in addition to $1 quarterly.
American Chain & Cable	.56	1.80	25½	13½	20	1.°0	B-2	Larger dividends follow jump in earnings.
★*American Chicle	7.54	8.79A	132	109½	138	6.25	B-2	May well pay even more this year than last.
American Hide & Leather	def.a	.59a	8	2⅞	5	....	B-3	Doing better. Liquidates preferred arrears.
★*American Home Products	3.92	5.00	60	41¾	58	2.65	B-2	20 cents a month likely to be augmented with further extras.
*American Safety Razor	1.48	1.50	15⅜	10¾	12	1.20	B-3	Some improvement recently. Competition keen.
*Archer-Daniels-Midland	.43a	3.01a	37	21	32	1.10	B-2	Earnings jump. 35 cents payable March 1.
*Brown Shoe	.77b	3.13b	41	31⅛	35	2.00	B-3	50 cents payable Mar. 1.
Carrier Corp	def.	NF	21½	8¾	13	....	A-2	Probably will report a profit for last year.
†Celanese Corp	.26	NF	30¼	13⅝	30	.50‡	A-2	Last year's cash payment was small in relation to probable earning power.
*Champion Paper & Fiber	1.98c	nil c	30	17	22	.10	[illegible]-2	Dividend small compared with current earning power.
*Cluett Peabody	1.28	4.16A	38	21¼	41	2.75	B-2	Outlook good. May pay even more this year.
Commercial Credit	4.60	4.01A	57	38¾	47	4.00	B-3	Margin of earnings small for the payment of $1 quarterly.
*Commercial Investment Trust	4.75	4.34A	60	42	55	4.00	B-3	Earnings dip despite larger business volume.
Container Corp	.04	1.60	17¼	9⅛	16	.25	B-2	25 cents paid Feb. 20.
★*Continental Can	2.17	2.71A	51¼	32½	46	2.00	A-3	Margin for 50 cents quarterly widening.
Continental Diamond Fibre	def.	.25	10⅜	5	7	....	B-3	May make some small distribution with further improvement.
Crown Cork & Seal	1.37	NF	41½	20¼	31	....	A-3	Doing better, but still digesting expansion program.
Dresser Mfg	.16	2.10	17⅛	6	17	.75	B-2	Jump in earnings warrants resumption of dividends.
★*Endicott Johnson	1.21e	3.07e	55	32¼	45	3.00	B-3	No change in 75 cents quarterly anticipated.
Electric Boat	.75	NF	18¼	8½	15	.60	A-3	Orders on hand assure activity this year.
Glidden	nil b	1.70b	24½	14	15	.50	A-3	Doing better. Further payments likely.
Hat Corp. "A"	.28b	1.10b	10⅛	4⅞	8	1.10	B-3	Pays dividends right up to earning power.
★*Hazel-Atlas Glass	4.97	7.50	112¼	93	107	5.00	A-3	$1.25 quarterly is well assured.
†Industrial Rayon	.24	1.60	29½	16¾	27	.75	A-2	Likely to pay more this year than last.
Interchemical Corp	.30	3.70	46¼	17½	42	.40	B-2	Jump in earnings indicates further, and larger, payments.
International Paper & Power	nil	nil	14¾	6⅜	13	....	B-2	Likely to resume dividends on the preferred before long.
Kimberly Clark	2.65	3.75	38	20	36	1.75	B-2	Further extras in addition to 25 cents quarterly likely.
*Lambert	1.71	1.70	18⅛	14	16	1.50	B-3	Earnings and dividends relatively stable.
*Lehn & Fink	1.05	1.40	13⅝	9⅜	13	1.37½	B-3	Pays dividends right up to estimated earnings.
*Life Savers Corp	2.76	3.00	43½	33	41	2.60	B-2	40 cents quarterly plus further extras likely.
Loft	def.	NF	21¾	6	28	....	B-2	Big beneficiary of Pepsi Cola dividend.
*MacAndrews & Forbes	1.99	2.40	35	28	34	2.00	B-3	40 cents extra paid Jan. 15.
Mohawk Carpet	def.	3.29A	21	10⅜	18	.75	B-2	Should pay more this year than last.
*Novadel-Agene	3.23	NF	37¼	24	37	3.00	B-3	50 cents quarterly plus further extras likely.
Omnibus Corp	1.72	NF	20½	12	13	1.20	B-3	At least 30 cents quarterly anticipated.
†*Owens-Illinois Glass	2.02	3.17A	70	50	63	2.00	A-2	Continuance of 50 cents quarterly expected.
Pratt & Lambert	.74	NF	23	16½	20	1.75	A-3	Doing better. Dividends raised.
★*Procter & Gamble	2.59a	3.86a	66	50⅝	69	2.25‡	B-2	Record high earnings for the six months ended Dec.
Simmons Co.	1.42	2.00	32¾	17½	22	1.75	B-2	Doing better. Dividend raised.
Spalding (A. G.) & Bros	def.b	.27b	4⅝	2¼	3	....	B-4	Dividends appear far from imminent.
*Sutherland Paper	2.03	2.52A	30½	22¾	29	1.30	A-2	30 cents quarterly plus further extras likely.
Tennessee Corp	.46	NF	9⅛	4	6	....	C-3	May resume dividends with modest distribution before long.
Texas Pacific Coal & Oil	1.16	1.00	11⅜	7	8	.40	C-3	10 cents quarterly seems well assured.
Truax-Traer Coal	.82c	.10c	7¾	3	4	....	C-3	Earnings improved towards the close of last year.
Tubize Chatillon	nil	NF	13⅛	7	10	....	A-3	Doing better, but dividends are not likely.
Union Bag & Paper	.86	.76A	13⅛	6	14	....	B-2	Recent earnings are understood to have been substantial.
United Drug	.37	.65	7⅛	4½	5	....	B-3	With continued improvement dividends may be resumed before long.
★*United Fruit	3.54	4.86A	95	62½	81	4.00	B-2	$1 quarterly may well be maintained.
U.S. Hoffman Machinery	def.	Nil A	7⅞	4	5	....	B-3	$1.83 earned on 5½% preferred last year.
*White Rock Mineral Springs	.58	.55	7	3½	5	.50	B-3	Year-end dividend was right up to estimated earnings.
★*Wrigley	3.82	4.50	85½	75	87	4.25	B-2	25 cents monthly plus further extras likely.

E—Estimated. NF—No estimate possible. —Actual earnings. a—Year to June 30. b—Year to Oct. 31. c—Year to April 30. d—Year to Sept. 30. e—Year to Nov. 30. ‡—Plus payment in stock. *—Uninterrupted dividends over 10-year period. ★—Recommended for income. †—Recommended for cyclical appreciation.

As the Trader Sees Today's Market

Seven Groups in the Dividend Forecast Considered for Technical Action

BY FREDERICK K. DODGE

In the current issues of the Dividend Forecast, of which this is the third and last part, the Trader looks at the charts of group action shown opposite and indicates his opinion of the technical behavior of each. The facts and figures bearing on these industries will be found in the Dividend Forecast beginning on page 604.—EDITOR'S NOTE.

THE broad market average and the individual groups charted on the opposite page are on a weekly basis, and for that reason miss some of the extreme points touched on certain days. This deficiency, if it is one, is balanced by the better perspective available on a weekly chart covering a longer period of time and omitting many of the meaningless short term swings. The broad average, for example, shows very clearly the trend of demand in this market working upwards since April of last year. Each spell of weakness has terminated at a higher point, as shown by the bottoms formed in April, July, August and in the first two months of 1940.

Since the purpose of this discussion is in no sense to predict the action of the general market, it is of no consequence that the series of successively higher bottoms may be broken at any time or may continue while stock prices work far higher. The point to be determined is *relative* action of each of the groups analyzed in this section of the Dividend Forecast. Assuming what may not be entirely true, that all the groups would normally move in the same general direction as the broad average, the question is—which are likely to prove exceptions to this assumption and which are likely to outperform the market though moving in a like trend? The answer has a bearing not only on the attractiveness of these industries as investments for capital appreciation, but also on the outlook for earnings and dividends in the future.

As an example of behavior which conforms very closely to that of the whole market, the Copper & Brass group charted herewith might be examined. Not only were the successively lower bottoms set at about the same times as those in the broad average, they were also similar in the trend established, although almost any single group is naturally more volatile than a composite of all of them. Progress, or rather lack of it, since January a year ago has been roughly the same as that in the market as a whole, and the main difference to show up in recent months has been the somewhat greater willingness of the Coppers to give up the ground gained during the September rally.

It will be noted, on the other hand, that the Coppers set a faster pace than the rest of the market immediately after the outbreak of war and pushed well through their January levels at that time. If this can now be looked back upon as overenthusiasm, its correction has obviously proceeded along normal lines in the five months since then. Despite the recent unfavorable news coming from the industry, it seems probable that action from this point on will correspond fairly closely with that of the entire market. Prospects for individual issues in the group are not at all identical, but over-all action should return to a probably magnified mirroring of the market average.

Non-Ferrous Metals include producers of lead, zinc, silver, nickel, alloys and other metals, most of which can be called industrial metals in the sense that their use and price depend upon the operations of industry. (Silver is the principal exception, but this metal is usually a by-product.) Here also will be seen action duplicating in somewhat exaggerted scope the general behavior of the market over the past year. The Metals have to their credit a refusal so far to break the trend

Group Volatility in Relation to the Market

	Decline '37 High to '38 Low	Gain '38 Low to '38 High	Decline '38 High to '39 Low	Gain '39 Low to '39 High
Market average	64%	76%	34%	44%
Construction	71	94	45	35
Copper	72	116	45	75
Dep't Stores	71	125	40	44
Mail Order	53	75	25	30
Metals	64	69	38	58
Petroleum	52	48	32	32
Variety Stores	58	66	22	35

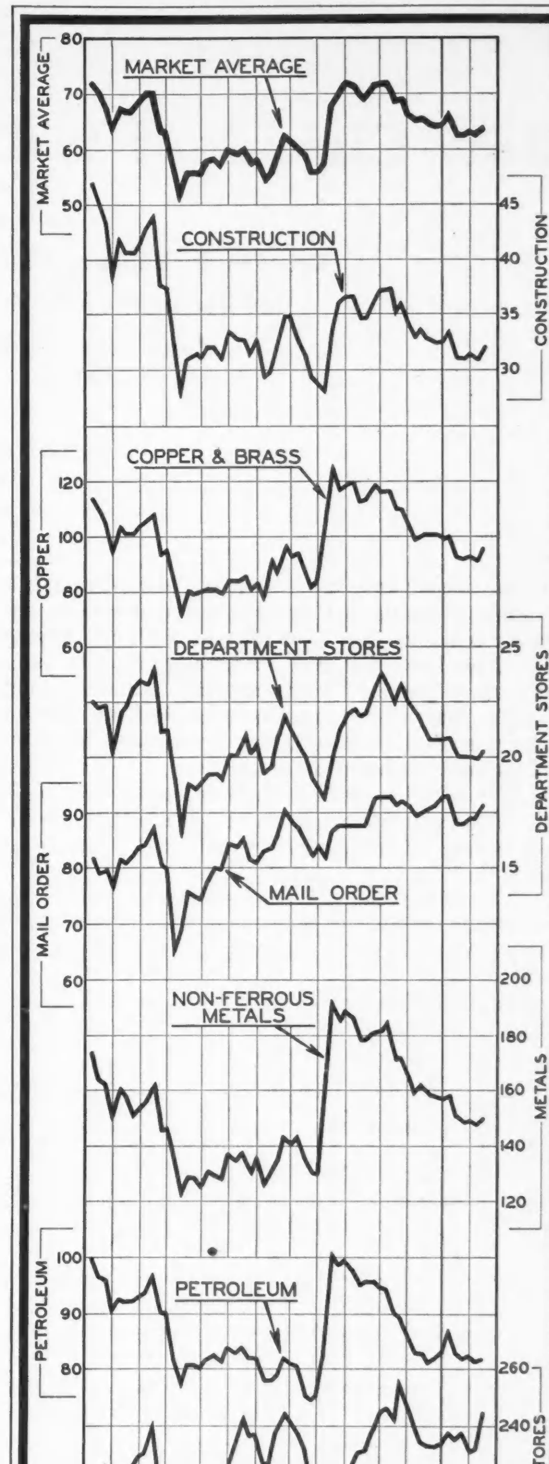
line formed by the rising bottoms shown in the spring and summer of 1939. The broad average has shown this sign of resistance, too, while the Coppers have recently broken through. Not too much significance is to be attached to this action, however. The Metals will very probably continue to move with the market unless or until some special developments affect them. Nothing of the sort is visible in action of this group to date.

The Construction group is an entirely different proposition. The low point for these issues in 1937 was 32.9, so that early 1940 levels have been below those of the first few months of the bear market. During the spring of 1938 the Constructions got down to 25.6, and none of the weak spells of the last year have reached that point, but they have not left any very comfortable leeway. *In relation to the general trend,* the Construction stocks have been in a bear market for over two years. It is ordinarily a good bet that any attempt to pick a definite point which marks the end of a trend of this sort will be premature. The chances must always be conceded to favor the trend underway at the time. But in this case there are certain signs pointing to a change, still negative signs, but nevertheless reassuring. Resistance just below 30 has been strong in the past, and the latest spell of weakness held well above there. As a matter of fact, the better part of a year has been spent in efforts to move away from this support level and up until November the efforts were increasingly successful. Another thrust into still higher ground would strengthen the impression that the long relative bear market in the Constructions may have ended and that action from this point may be more nearly in line with that of the market average.

Department Stores were not particularly helped by news of the war last fall, and their rally stopped at about the same point as the high set earlier in the year. On a percentage basis, however, this was equal to the gain in the broad market average, which might under the circumstances be considered sufficiently promising action. The markdown since then has been no greater than would be indicated by market trends, while the line formed by the lows of last April and August has remained as yet unbroken. With any chance at all, the Department Store group would evidently tackle the upper limits which stopped it twice before. The result of such an effort, if made, would be of considerable significance.

Mail Orders, with only the two leaders, Montgomery Ward and Sears Roebuck included, have been showing the consistent strength that would be expected of an industry breaking all sales records. Although the first effect of the war was a setback for these issues, they soon recovered and went on into new high ground since 1937. Even in the recent sagging market they have held up well, forcing upon us the conclusion that the demand which has persisted for so many months has not yet been fully satisfied. There is thus nothing to indicate that the bull market in Mail Orders is near an end, although it is obvious that the opportunities to pick up bargains in this group are rare.

Variety Stores have also demonstrated considerable strength over the past year. The peak set in November was above any levels seen since 1937 and the reaction since then has been so small on a percentage basis as to suggest that another forward (*Please turn to page 646*)



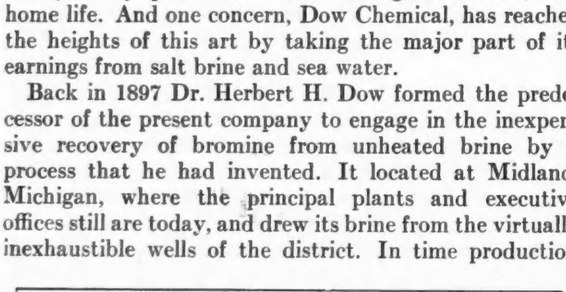
Dow Chemical Follows Its Own Cycle

Growth in Volume, Diversification of Customers, Development of Additional Products—Result: New Records Now Being Made

BY H. F. TRAVIS

CHEMICAL companies are the wizards of modern industry. From materials that man has regarded as commonplace for centuries they have brought forth an amazing array of products that find ready application in practically every phase of manufacturing, commerce, and home life. And one concern, Dow Chemical, has reached the heights of this art by taking the major part of its earnings from salt brine and sea water.

Back in 1897 Dr. Herbert H. Dow formed the predecessor of the present company to engage in the inexpensive recovery of bromine from unheated brine by a process that he had invented. It located at Midland, Michigan, where the principal plants and executive offices still are today, and drew its brine from the virtually inexhaustible wells of the district. In time production



† FISCAL YEAR ENDING MAY 31

was expanded to include chlorine and caustic soda from the sodium chloride in the brine, and business prospered. Then as its technicians continued to work on the analysis of salt brine, the list of the company's products began to grow. By the distillation and combination and recombination of the elements found in the humble brine and by the development of coal tar derivatives, Dow is able to list literally hundreds of products. Many of them have imposing names such as paraphenylphenol (used in plastics) or perchlorethylene (used in textiles), but the main factor to the layman, whose knowledge of chemistry is usually vague, is that these products are used by almost every industry, and Dow is able to supply the demand at a handsome profit.

The development of ethyl fluid to reduce the knocking of gasoline in the high compression modern cars created an enormous demand for bromine. This comes under the heading of scarce materials and practically the only source of supply in the United States was at that time the Dow Chemical property in Midland. But the company foresaw that intensive production simply for the recovery of bromine from the wells would soon reach an economic limit. And accordingly plans were made to utilize the ocean instead.

Bromine is found in sea water in the ratio of about one part to 15,000 by weight and forms 85 per cent of the ethylene dibromide used in producing ethyl fluid. This fact is easily ascertained. The real problem, however, is to obtain the chemical efficiently, that is cheaply and in sufficient quantity to make operations worth while. And this Dow has been eminently successful in doing. A plant was put into production at Kure Beach near Wilmington, North Carolina, as a joint venture of Dow Chemical and Ethyl Gasoline Corp.

Formed in 1932, the company known as the Ethyl-Dow Co. was already a success in 1933 and growing demand resulted in capacity being increased several times over. In 1938 shipments of dibromide were approximately 25,000,000 pounds and had a value of \$15,000,000. The \$1,000,000 that represented Dow's half interest in the profits was slightly over 20 per cent of its entire net income for that year, which illustrates how important

this division has become. Ethyl-Dow is currently producing at the rate of 60,000 pounds of bromine per day and it is estimated that 70 per cent of the gasoline now used for automobiles is treated with lead. And since Ethyl has a firm grip on this market Dow's position seems secure.

The only obstacle that can be seen at the present time is the recent development of the Houdry process by Sun Oil and Socony Vacuum to the point where it enables efficient production of high octane gas. The new process is important as a conservation measure for it makes possible the recovery of gas from crude bottom oils that cannot ordinarily be used, but it is not a serious threat to the position of Ethyl in its present form. Experts have pointed out that the addition of lead to any gas will further raise the octane rating, and therefore, the amount of the market for Ethyl that might be lost eventually through the growth of the Houdry process is the difference between the octane rating of ordinary gas before the addition of lead and the octane rating of the new gas. And this is providing of course that the oil industry is willing to make the huge capital outlay necessary to revamp its entire refinery system. At present, however, Ethyl sales are climbing in response to the demand for the high octane gasoline needed in planes.

Lightest Metal in the World

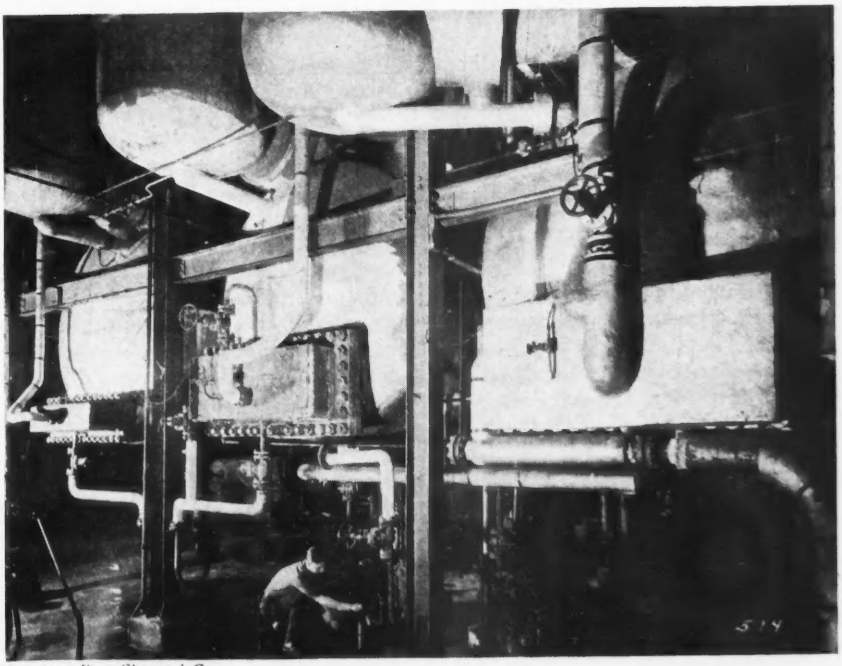
Another important product of Dow's brine wells in Midland is magnesium which it turns into magnesium metal and sells under the trade name of Dowmetal. Completely controlled by the company, it is the lightest metal alloy in the world and is both strong and easily machined. Added to all these virtues is the paramount fact that it is cheap. The result is that this silvery metal is being rapidly introduced into industries everywhere. In aircraft construction it meets the need for light strong metal and saves pounds in parts and engines of Douglas Aircraft and Aviation Corp. Used in a Foster Wheeler axial fan it reduced weight from 1,100 pounds to 165 pounds and resulted in a power saving of about 50 per cent. The industrial production of Dowmetal is still in its infancy, but output is now nearly 6,000,000 pounds per year, and the ever increasing demand points towards a need for far greater capacity.

After several years of experimental work the company is now preparing to put a new composition on the market commercially. Called vinylidene chloride it is chemically allied to the vinyl chlorides already in use as resins and insulating materials and to vinyl acetal, the revolutionary new binder for safety glass. The potentially low cost of manufacturing this plastic is expected to make it a valuable addition to the rapidly growing family of Dow materials. It has a tensile strength of around 40,000 pounds to the square inch and still remains flexible, withstands all ordinary solvents, and flows cold under pressure like a metal forging. When production has been refined it is expected to show excellent possibilities for automobile body moldings and similar purposes.

Two other plastics that the company has recently developed are Styron and Ethocel. The former, a vinyl benzene has crystal clarity and the insullation qualities of fused quartz, while the latter is ethyl cellulose and is used as a wrapping film and molding. The possibilities of the two products may be judged from their application in the company's exposition buildings on Treasure Island in the Golden Gate of San Francisco. Side walls were made of Ethocel blocks while overhead opaque Styron blocks were used.

In 1932 the Dowell Corp., an offshoot of the parent company, was formed to engage actively in increasing the flow of oil wells through the introduction of acid that opens up the oil bearing strata without attacking the steel tubing used in the shafts. The results of this treatment are amazing. In approximately 20,000 applications, well production was increased an average of 400 per cent and the net saving to the producers has been estimated at over $100,000,000. This division also offers a new method of reducing permeability chemically by stopping the flow of unwanted water or gas in the wells.

In late 1938 the company took an opportunity to expand externally by merging with the Great Western Electro-Chemical Co. of San Francisco. Under the terms of the merger, Dow assimilated Great Western through an exchange of stock that was approved by the stockholders of both companies. *(Please turn to page 646)*



Courtesy Dow Chemical Co.

Equipment for the manufacture of Dow Para Tertiary Butyl Phenol, which is used in making synthetic resins for paints and varnishes.

The Investment Clinic

Speculating in Dividends

Conducted by J. S. WILLIAMS

LISTED on the New York Stock Exchange are more than two score issues of preferred stocks on which there have accumulated back dividends — dividends which must be paid or otherwise discharged before common stockholders can receive any share of the company's earnings.

Last year with the benefit of a general improvement in business many of these companies with dividend accumulations on their preferred stock capitalization were able to show earnings which would appear to lend considerable support to the possibility that some action may soon be taken toward the elimination of accumulated dividends. At least such a possibility appears sufficiently assured to imply the existence of promising speculative opportunities among this group of issues.

The majority of preferred issues on which dividends, of necessity, were passed during the past eight or ten years have as a result lost much of the relative investment background with which preferred stocks are ordinarily associated. In fact most of the preferred stocks comprising the accompanying tabulation admittedly have a very definite speculative flavor. The dividend arrearage itself is a measure of the speculative risk involved in this type of preferred issue. In short, the "preferred" appellation is more apparent than actual.

For this reason it is necessary to judge the relative merits of these preferred stocks in much the same manner as would be done in the case of a common stock. It cannot be safely assumed that simply because a company has contracted to pay a certain dividend on its preferred stock all accumulated dividends must sooner or later be paid *in full,* and holders of such issues merely by exercising the necessary patience will receive a handsome return on the investment. Such rosy expectations must be tempered by the realization that the inability of a company to maintain preferred dividends is not necessarily the result of a temporary set-back in earnings. Take for instance American Woolen 7 per cent preferred shares. Unpaid dividends as of the beginning of this year totaled \$79.75, representing more than eleven years' accumulations. In 1936, a total of \$4 was paid on this issue; a payment of \$3 was made in 1937; and recently another payment of \$3 was declared.

An accumulation of preferred dividends may be tangible evidence that a problem of some seriousness confronts the issuing company. It may be a case of top-heavy capitalization; the company may be lacking in competitive vitality; or the industry may be a backward one. Financial position and working capital may be in dire need of bolstering. If such is the case, the chances are that it will be done at the expense of withholding further any dividends to preferred stockholders. It does not follow therefore that good earnings last year on a preferred stock having dividends in arrears is bona fide evidence that the discharge of such accumulations is imminent.

In 1936 and 1937, however, a number of companies with the benefit of the generally good earnings reported in those years were able to liquidate back preferred dividends. Thus the speculative possibilities in such issues are not without a nearby precedent.

Recapitalization—A Possible Solution

Also in 1936 and 1937 other companies solved the problem of accumulated preferred dividends through the expedient of a recapitalization. Bethlehem Steel Corp., in 1936, used this method when accumulated dividends of \$21 a share on the company's 7 per cent preferred stock were liquidated by the issuance of one share of new 5 per cent preferred stock, \$20 par, and \$1 cash for each share of 7 per cent preferred stock outstanding. Recently the company announced the retirement of all the 5 per cent preferred stock at par.

Naturally the success of a plan of recapitalization for the purpose of liquidating back dividends is more assured at a time when earnings are up and the company's securities are being appraised in the market at comparatively substantial prices. The marked gains shown in the earnings of many companies faced with the problem of back dividends, coupled with the current prospect that earnings will be well sustained on a comparable basis, if not actually improving on last year's results, suggests that the number of such companies may be reduced considerably—as was the case in 1936 and 1937. On the strength of this reasoning, a considered choice of preferred stocks having accumulated dividends might well yield worthwhile speculative profits.

From the accompanying list of such preferred stocks, several have been selected for more detailed discussion here, without prejudice, however, for the other issues not so singled out.

Preferred Stocks With Accumulated Dividends

Issue	Divd. Arrears	Paid 1939	Earned Per Share 1938	Earned Per Share 1939	Price Range 1939 High	Price Range 1939 Low	Recent Price
Amer. Power & Light $6	19.57½	4.80	5.51(a)	5.77(ab)	58⅞	32	56
Amer. Power & Light $5	16.31¼	4.00	5.51(a)	5.77(ab)	49	28	47
Amer. Rolling Mill $4.50	2.75	2.75(g)	d2.91	8.00(e)	80¼	50	65
Armour & Co. of Ill. $6 Prior	12.00	None	d9.85	6.13	60	33¾	50
Associated Dry Goods $7, 2nd	32.25	(c)	d0.32	NF	81	41	71
Certain-teed Products $6	16.50	None	2.34	7.00(e)	47½	22	33
Commonwealth Southern	15.00	3.00	7.91	8.82(b)	72½	45¾	65
Crucible Steel $7	37.25	None	d9.37	15.00(e)	96	62	38
Curtis Publishing $7	19.37½	2.37½f	1.62	3.50(e)	63½	38	44
Foster Wheeler $7	49.00	None	9.71	NF	90¾	66½	71
International Paper & Power $5	12.50	None	0.13	4.50(e)	57⅜	25¼	58
Jones & Laughlin $7	42.00	None	d10.01	6.00(e)	83	35	61
Republic Steel $6 Conv.	18.00	7.50	d81.04	75.00(e)	95¾	43	88
Revere Copper & Brass $5¼	10.50	None	d17.90	7.00(e)	56	37⅝	77
Wilson & Co. $6	7.50	2.25(H)	0.06	9.90	60¼	32	57

(a) Combined preferreds. ((b) 12 mos. to Nov. 30. (c) Paid $9.75 in 1940. (d) Deficit. (e) Estimated. (f) Paid $1 in 1940. (g) Paid $1.25 in 1940. NF Not Available. (H) Paid $1.50 in 1940.

At the beginning of the current year Republic Steel $6 convertible preferred shares had dividend arrears amounting to $18 a share. Last December a payment of $7.50 a share was made on this issue and during 1939 all arrears on the $6 prior preference issue were liquidated and regular quarterly payments on the latter issue have since been continued. The preliminary report of Republic Steel for 1939 placed net income at $10,671,-843, the best showing ever made by the present company. Total annual dividends on the combined prior preference and convertible preferred issues amount to some $2,400,000, for which last year's net afforded a coverage of better than four times. Although the company's balance sheet for 1939 is not available at this writing, it is a safe assumption that the cash position will show considerable improvement over a year ago. While the company's operations at the present time are undoubtedly reflecting the slump in new orders throughout the steel industry, there is a strong likelihood that this slump will prove to be more or less temporary. If such proves to be the case, and current operations yield a profit comparable to last year, there is an excellent chance that steps may be taken to eliminate the arrears on the $6 convertible preferred.

Two Packing Company Preferreds

Two of the leading meat packing companies have preferred stocks with accumulated dividends—Armour & Co. (Ill.), $6 prior preferred, and Wilson & Co., $6 preferred stock. Both of these issues offer speculative inducements. Accumulated dividends on the Armour issue totaled $12 at the beginning of the current year, while accumulations on Wilson amounted to $7.50. Reflecting rising purchasing power and improved profit margins both companies last year were successful in improving considerably upon their 1938 showing. Present prospects for the meat packing industry presage further important gains this year for both companies. Wilson & Co. recently declared a dividend of $1.50 against accumulations on the $6 preferred issue, while on the Armour issue there is an excellent chance similar action will be undertaken in the near future.

So substantial were the gains in the business of International Paper & Power in the final quarter last year that it is expected that net was in the neighborhood of $4,000,000, which would compare with the total annual dividend requirements on the company's $5 preferred stock of $4,649,675. Dividends on the latter issue were in arrears to the extent of $12.50 a share at the start of 1940. Current outlook at the present time favors sustained good earnings, giving considerable weight to the possibility that the company will elect to resume preferred dividends within the next 30 to 60 days. Further enhancing the speculative prospects for this issue is the possibility that later this year the company will undertake an important refunding operation with a view to reducing fixed charges on its funded debt.

It is expected that the report of Associated Dry Goods for the fiscal year ended January 31 will show net of better than $2,000,000, equal, after regular dividends on both the first and second preferred issues, to about $1.50 a share for the common stock. This will be the best showing for the company since 1930. Tangible evidence of the extent of the improvement in the company's earnings last year is afforded by the recent action of directors in declaring two payments of $8 and $1.75 a shares.

Giving effect to these payments accumulations on Associated Dry Goods second preferred shares now total $32.25 a share. There are less than 57,000 shares of the $7 second preferred outstanding and with the promise that increasing public purchasing power will make further contributions to the sales and earnings of Associated Dry Goods in the current fiscal year, the chances appear excellent that additional payments against arrears will be made.

Jones & Laughlin—Possible Recapitalization

As of January 1, last, accumulated dividends on Jones & Laughlin Steel 7 per cent preferred stock totaled $42 a share. The issue is a large one, with 587,139 shares outstanding. To discharge accumulated dividends in full would require almost $25,000,000 and in view of the size of this obligation it hardly seems likely that the company has any intention of pouring out this large amount of cash to preferred stockholders. It would be more logical for the company to formulate a plan of recapitalization, involving perhaps a partial distribution in cash. Reflecting principally the fourth quarter spurt in operations, earnings of the company last year totaled $3,188,-944 or the equivalent of $5.43 a share for the preferred stock. In 1938 a deficit of nearly $6,000,000 was shown. The latter, however, was not an out-of-pocket loss, having been exceeded by the charge-off for depreciation and depletion. The preferred shares, although an extremely volatile issue, are not without speculative promise over the months ahead.

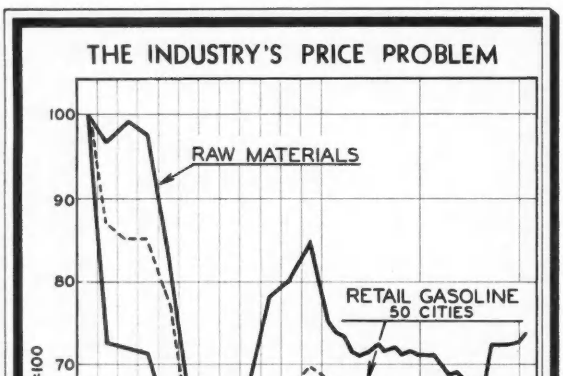
Basic Turn in Oils Near?

Sharp Distinction Necessary Between Divisions of a Changing Industry

BY JESSE J. HIPPLE

An abundant supply of reasonably priced raw materials, a technology which is constantly increasing the proportion of "money products" being recovered from those raw materials and a consistent increase in consumer demand for finished products would seem to constitute a success formula for any business. But this is apparently not so with the petroleum industry.

Last year witnessed new high records for both production and consumption of crude oil and the products refined from it. Despite these new high records, the industry's net earnings probably failed to do more than equal the mediocre results of 1938. Maladjustments in the time element of production and unseasonally high consumption of "winter" products during the period when such materials should have been going into storage, all combined to hold prices in check and to prevent any better than fairly profitable operations during the year.



During 1939, the United States petroleum industry produced the astonishing total of 1,248,544,000 barrels of crude oil or about 34 per cent of the world's total output. In addition, the United States imported about 35,000,000 barrels of petroleum as well. Despite the fact that all of this huge store of oil was consumed and additional supplies had to be withdrawn from storage, the most prolific oil production areas of this country had to be shut down tightly for two whole weeks to keep one of the smaller oil producing states in the midwest from flooding the market with its suddenly acquired, unrestricted, flush production of crude oil.

The small oil producing state was Illinois. While now producing less than 1 per cent of the crude oil being recovered in the United States, Illinois—close to the country's large refining areas centering around Chicago—threatened to disrupt the crude oil price structure of the entire industry by its uncontrolled crude oil output. If all sections of the country had continued to produce their full allowable allotment of crude oil, stocks at more remote points would have accumulated to such an extent that a sharp downward revision of crude oil prices would have been inevitable. Indeed, one of the largest buyers of crude oil did lower the bid price for oil but was met with a complete stoppage of crude oil production in Texas and the Southwest which continued for a fortnight.

This drastic action had the effect of reducing the volume of crude oil above ground to such an extent that at the end of the year crude oil stocks were approximately 237,742,000 barrels, 14.7 per cent below those of the previous year's comparable period and about 9 per cent below the industry's estimated lowest economic level. It was likewise the lowest level of crude oil above ground at any time in the past ten years or more.

Illinois continues to produce "wide open" but what the State is apparently unwilling to do, nature is doing for her. Unconfined production has resulted in a noticeable decrease in flush production, gas pressure is diminishing, water is beginning to intrude and recent wells brought in are either relatively small flush producers or are "pumpers" from the start. While it is not meant to be inferred that Illinois will soon be removed from the roster of oil producing states, the State's output has

Wide World Photo

The discovery well, Bunyan Travis No. 1, in the new southern Illinois field, pioneered by Pure Oil.

become relatively unimportant in view of the low point of the industry's crude oil stocks and the expectation of somewhat improved demand for the oil this year. However, the possibility that a new rampantly producing field may be discovered at any time is one of the unpredictable hazards of the industry.

Gasoline, the largest revenue producing product of the refining branch of the industry, continues its upward trend of consumption and production. In 1939 the industry produced about 620,000,000 barrels of finished gasoline of all grades, about 8 per cent above the amount produced in 1938 and a new high record for output. Consumption, however, despite an increase of about 5 per cent above that of a year ago and also a new high record volume, was inadequate to assimilate all of the gasoline produced, with the result that the already dangerously high stocks of finished and unfinished gasoline on hand at the close of 1938 was further expanded to 80,985,000 barrels or about 10 per cent above a year ago. At the rate which the industry continues to produce gasoline, it is likely that stocks on hand will exceed 100,000,000 barrels by the time the heavy summer consumption season gets under way.

Why Gasoline Stocks Are High

The primary reason for the heavy expansion in gasoline production and the inability of the refiners to reduce their output of motor fuel in the face of mounting gasoline stocks was the heavy demand for fuel oil which accompanied the burst of industrial activity that began last September.

Despite the lag in industrial activities from late 1937 until about the middle of 1938 and the slow pace of recovery from that time until September of last year, stocks of fuel oil did not become burdensome. Consumption, due to the increasing use of fuel oil for domestic heating, moved up slowly but surely. The demand, however, was not sufficiently strong to exert any great pressure upon the refiners to maintain adequate stocks on hand. With the sharp revival of the pace of industrial activity in September of last year, power plants suddenly increased their requirements to a point where it was no longer feasible for the refiners to add to the stocks in storage. This unseasonal demand occurred just at the time when stocks should have been mounting sharply in preparation to meet the normal winter demand. Added to the difficulty of unforeseen contra-seasonal demand, winter demand has turned out to be abnormally high and promises to continue so. Industry has slackened its high pace but slightly while winter temperatures have dropped sharply below seasonal average levels. Both of these factors have combined to increase the demand for fuel oil to new high levels about 20 per cent above those of last winter.

In order to make fuel oil it is also necessary to make gasoline and all of the other refined products usually recovered in a run. Every hundred barrels of average quality crude oil that is refined, yields about 48.7 barrels of gasoline, 5.5 barrels of kerosene, 7.5 barrels of lubricating oil and other products as well as 38.3 barrels of gas and fuel oils. Since gasoline is in relatively poor demand at the time when fuel oil sells the best, it is therefore necessary to make and store the motor fuel in order to continue to serve what is now the second largest consuming division of the industry. Indeed, it is just as necessary to retain the good will of fuel oil consumers as it is to favor the automobile demand since the oil industry spent many millions of dollars in order to open up the market for fuel oils which—as was the former case of gasoline—at one time was almost a waste product.

The markets for other products such as lubricants, waxes, greases, road oils and the many smaller refinery products are well maintained at prices which seldom vary. Demand continues at good levels and profits are fair but because their volume is relatively insignificant, these products play but a minor part in the outlook for the petroleum industry.

The outlook for the current year for the industry is one of still rising consumption and production but, for the early part of the year at least, perhaps even narrower profit margins than a year ago.

It is probable that daily crude oil production schedules will be stepped up about 6 per cent above last year's

Nesmith

A typical gang pump, one of a series in the oil field near Davenport, Okla. In the background is a spheroid storage tank.

average levels to meet an estimated daily crude run to stills by refiners of about 3,644,000 barrels. Such an estimate is based upon the expectation of about a 5 per cent increase in motor fuel consumption, a further increase in fuel oil demand of at least 10 per cent and higher demand for other products amounting to as much as 15 per cent above a year ago. No particular increases in exports can be counted upon.

The expectation of an increase in gasoline demand during 1940 is based upon rising automobile registrations as well as the continued growth in the annual per car consumption of motor fuel. About 3,250,000 new automobiles were sold to the American public last year: 40 per cent above the number sold in 1938. The number of new cars sold exceeded the number of old cars junked by a substantial margin and as a result, it is likely that there were more than 30,500,000 cars on the road at the beginning of this year; more than in any previous year of the automobile industry's history. The automobile industry predicts that it will sell about 10 per cent more cars this year than it did in 1939, which, if accomplished, would mean that during 1940, another 3,600,000 cars (domestic) will be on the road. With the average gasoline consumption per car now about 760 gallons yearly or about 50 per cent higher than ten years ago, an increase in consumption to about 810 gallons per car per year is possible and would mean that sales of about 635,000,000 barrels of gasoline both for domestic consumption and for export are within the bounds of reasonable expectancy.

Contrary to general expectations, however, gasoline exports dropped off rather sharply after the declaration of war last September. As a result, last year's total gasoline exports fell somewhat short of the 50,198,000 barrels of motor fuel shipped abroad in 1938 and it is not likely that this year's foreign shipments will be materially higher. It is true that mechanized military operations call for heavily increased consumption of motor fuel but foreign governments, in an effort to conserve their foreign exchange and at the same time to assure their military forces an adequate supply of fuel, have so severely rationed motor fuel to the civilian population that the use of private motor vehicles in many countries has almost ceased. The restrictions of the Embargo Act will also hinder bulk shipments of gasoline due to the relative scarcity of foreign tankships and the prohibition against American tankers calling at belligerent nations' ports. The invocation by the United States Government of a "moral embargo" on shipments of aviation gasoline to those nations whose military forces have bombed civilian populations from the air—Japan and Russia—has also tended toward reducing the volume of exports.

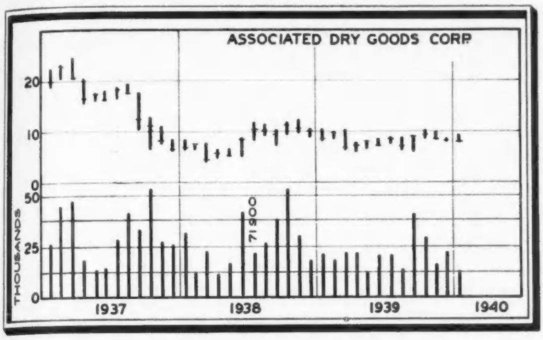
Up to the close of 1939, the petroleum industry managed to keep prices for both crude oil and refined products fairly stable. While there were no sharp advances—except perhaps in the price of fuel oils later in the year—there were also no sharp breaks. This record was not achieved without heroic effort—as witness the two-week shut down of the entire Texas and Southwestern oil fields—but with sporadic outbreaks of lower gasoline prices in widely scattered centers and the rapid rise of gasoline stocks, some major drop in motor fuel prices is likely before the season of maximum consumption is reached. On the other hand, prices of heating oils, for new contracts or for quantities in excess of existing contracts, are likely to rise due to increasingly heavy demand—now estimated to be about 20 per cent in excess of that of a year ago—and the sharp decrease of the supplies now on hand.

With gasoline prices lower, some further gains in gallonage are likely since there is now a definite tendency on the part of the consumer to adapt the amount of riding done to the quantity of fuel procurable for a definite sum of money. The almost universal installation of calculating pumps by retailers now permits the purchaser to specify his requirements in dollar values rather than in gallons as has heretofore been the custom.

The apparent inability of the refiners to adjust gasoline prices upward in keeping with rising demand is occasioned not only by the above mentioned consumer characteristic but also by the continuously mounting tax imposts. Taxes on the sale of refined petroleum products—which in some cases amounts to nearly 6 cents a gallon as compared with an average (*Please turn to page* 644)

10 Low Price, Active Leverage Stocks

ASSOCIATED DRY GOODS CORPORATION



BUSINESS: Associated Dry Goods Corp. is the holding company for subsidiaries which operate eight of the largest and longest established department stores in the East. Lord & Taylor and McCreery's of New York City, Hahne & Co. of Newark, N. J. and Montclair, N. J., Stewart & Co. of Baltimore and similar high grade institutions specializing in high grade, style merchandise are included in the company's holdings.

FINANCIAL POSITION: Associated Dry Goods has long maintained a strong financial position. Current assets ratios of about five to one are characteristic of the company's financial position. Cash items alone are usually in excess of total current liabilities. The capitalization senior to the common shares is relatively heavy, consisting as it does of about $3,580,000 of subsidiary mortgages, 134,364 shares of non-callable $6 dividend preferred stock and 56,901 shares of $7 dividend non-callable second preferred. There are, however, only 590,940 shares of common stock of $1 par value.

OUTLOOK: Growing competition and increasing traffic difficulties have tended to limit the growth of sales of certain of the company's stores. However, the latter difficulty is being overcome to some extent through opening stores in suburban areas from where a large part of the stores' clientele is drawn. In common with all such merchandising, the weather plays an important part in determining the volume of sales. To overcome this in part, all stores are now air-conditioned and completely renovated for customer comfort. With improved personnel efficiency and reviving industrial activity, sales should continue to improve and with less resistance to higher sales prices, profit margins will probably gain.

MARKET ACTION:	Associated Dry Goods	Market Average	Associated's moves in rel. to av.
'37 high to '38 low	83% decline	64% decline	29% wider
'38 low to '38 high	216% advance	76% advance	185% wider
'38 high to '39 low	55% decline	34% decline	62% wider
'39 low to '39 high	84% advance	44% advance	91% wider

Average volatility on four moves 92% greater than M. W. S. index of 309 common stocks.

COMMENT: Recent price—8. The market price is about mid-way between the 1939 high and low. Common earnings have varied sharply despite only moderate changes in the volume of sales.

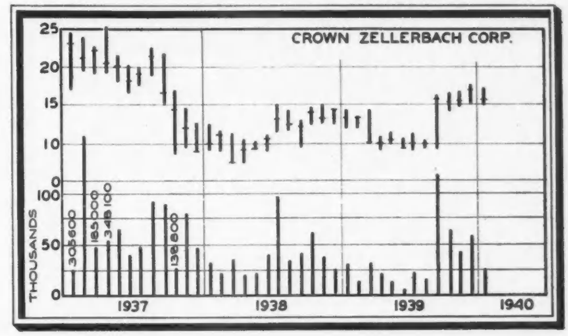
Long-Term Record

Year*	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1930	NF	$2.47	$2.02	$2.50	50½-19
1931	NF	.56	d1.22	2.13	29⅝- 5¾
1932	NF	d1.94	d5.47	....	11 - 3
1933	$43.4	.20	d1.71	....	20 - 3½
1934	46.3	.94	d .45	....	18¼- 7¼
1935	47.8	1.27	.11	....	18¾- 7½
1936	54.2	1.70	.85	....	27⅞-12⅝
1937	57.0	1.22	.02	....	24¾- 6
1938	54.8	.79	d .70	....	12⅝- 4
1939	NF	2.15E	1.50E	....	10⅜- 5⅝

*—Fiscal year ends about Jan. 31 of the next year. NF—Not available. d—Deficit. E—Estimate.

Thumbnail Stock Appraisal

CROWN ZELLERBACH CORPORATION



BUSINESS: Crown Zellerbach Corp. is the most important paper producer on the West Coast. It possesses about 50 per cent of that territory's kraft production capacity, about the same proportion of the newsprint capacity and makes about 40 per cent of the kraft board produced on the "Coast." Half the company's tonnage is newsprint but it is the kraft paper and board that supply the largest part of the company's operating income.

FINANCIAL POSITION: The Corporation has no funded debt. There are, however, about $16.5 million of bank loans. An issue of $5 cumulative dividend, convertible preferred stock is outstanding in the amount of 529,655 shares. The preferred stock is convertible into 3 shares of common for each preferred until March 1, 1942. About 2,261,200 shares of $5 par value common stock follow the senior issues. Working capital is ample for the company's needs. Current asset ratios have been maintained constantly at close to 3 to 1. Dividends have been maintained on the preferred and common issues since 1937 when the company merged with the Crown Willamette Co. and all accumulations on the old preferred stocks were eliminated.

OUTLOOK: The demand for krafts and newsprint was well sustained during the last half of 1939 and the first part of this year. Prices for the various items are rising somewhat faster than those of the various raw materials with the result that profit margins should improve further. Pulp is the one item in which a major shortage might develop since much of the pulp used in this country is imported from Scandinavia. Crown Zellerbach owns its own pulp mills which gives it some advantage over its competitors who are not similarly equipped.

MARKET ACTION:	Crown Zellerbach	Market Average	Crown's moves in relation to average
'37 high to '38 low	70% decline	64% decline	9% wider
'38 low to '38 high	102% advance	76% advance	33% wider
'38 high to '39 low	40% decline	34% decline	17% wider
'39 low to '39 high	96% advance	44% advance	118% wider

☛ Average volatility on declines 13% greater and on advances 75% greater than M. W. S index of 309 common stocks.

COMMENT: Recent price—17. The company earned about $1.03 a share of common in the first half of the current fiscal year and the stock is selling at close to the 1939 high.

Long-Term Record

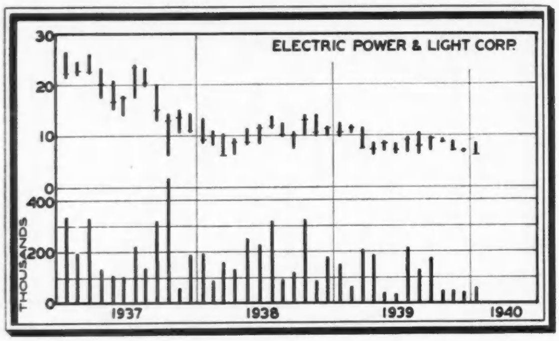
Year*	Net Sales (millions)	Net Income (millions)	Earned Per Share	Dividends	Price Range
1930	NF	$4.4	$1.44	$1.00	18½- 4¾
1931	NF	1.3	d .11	....	6⅞- 1
1932	NF	1.0	d .29	....	3 - ½
1933	NF	d1.7	d1.72	....	8½- 1
1934	NF	1.1	d .24	....	6⅝- 3⅝
1935	NF	1.4	d .16	....	9⅛- 3½
1936	NF	2.9	.76	....	19⅛- 7¼
1937M	$48.7	5.1	1.08	.25	25¼- 8½
1938	49.9	6.2	1.58	.75	15⅛- 7½
1939	48.3	5.0	1.05	.50	17⅝- 9

*—Fiscal year ending April 30. NF—Not available. d—Deficit. M—Merger year.

Thumbnail Stock Appraisal

10 Low Price, Active

ELECTRIC POWER & LIGHT CORP.



BUSINESS: Electric Power & Light is a middle holding company of the Electric Bond & Share system. Electric Bond & Share owns about 60 per cent of Electric Power & Light's common stock. Electric P. & L. derives about 47 per cent of its income from the sale of electric energy, about 39 per cent from the sale of natural gas and oil and the remainder from traction and miscellaneous activities. United Gas Corp. supplies the gas and oil.

FINANCIAL POSITION: Considering that income derivable from subsidiaries is hampered by unpaid subsidiary preferred dividends, Electric Power & Light Corp. has succeeded in maintaining a fairly strong financial position. Income received, however, has been sufficient to service the funded debt with occasionally enough surplus to cover preferred dividend requirements.

OUTLOOK: The parent company funded debt amounts to about $32 million and the consolidated subsidiary debt amounts to approximately $275 million. Subsidiary preferred stocks have a par value of about $117 million. Parent company preferred stocks consists of 514,162 shares of $7 dividend stock, 255,431 shares of $6 dividend first preferred and 79,339 shares of $7 dividend second preferred stock. The preferred stocks are followed by 3,435,687 shares of common. All issues are of no stated par value. Preferred accumulations are heavy. Improved business in the areas served by the company's subsidiaries promises continued gains in gross revenues. Several subsidiaries are making progress in eliminating arrears which will eventually help the parent company's position. United Gas likewise has speculative possibilities through its holdings in the Rodessa oil field of Louisiana.

MARKET ACTION:	Electric Power & Light	Market Average	Elec. Pwr. moves in relation to avge.
'37 high to '38 low	77% decline	64% decline	20% wider
'38 low to '38 high	128% advance	76% advance	68% wider
'38 high to '39 low	55% decline	34% decline	62% wider
39 low to '39 high	98% advance	44% advance	123% wider

Average volatility on four moves 63% greater than M. W. S. index of 309 common stocks.

COMMENT: Recent price—7. The heavy senior capital structure affords the common stock an excellent degree of leverage. The common stock is selling currently at close to its 1939 low.

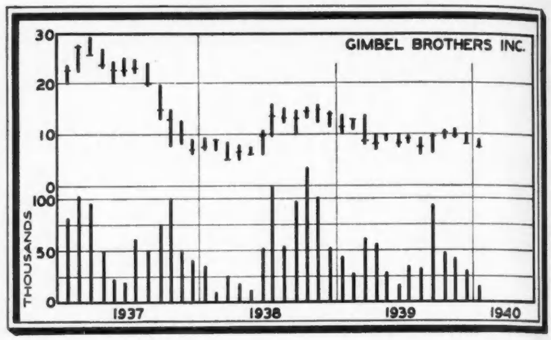
Long-Term Record

Year	Gross Revenues (millions)*	Net Income (millions)*	Net Per Share	Dividends	Price Range
1930	$75.0	$10.2	$2.86	$1.00	103½-34⅜
1931	80.0	9.9	1.21	1.00	60¾- 9
1932	73.3	4.8	d .33	.50	16 - 2¾
1933	67.5	d2.1	d2.32	....	4½- 1
1934	74.5	.2	d1.63	....	9⅝- 2¼
1935	78.0	.9	d1.40	....	7½- 1⅛
1936	96.7	7.7	.60	....	25⅞- 6⅜
1937	109.4	9.7	1.17	....	26⅝- 6⅛
1938	104.2	4.7	d .30	....	14 - 6⅛
1939x	105.9	4.10	d .46	....	12⅜- 6¼

*—For the system. x—12 months ended Oct. 31. d—Deficit.

Thumbnail Stock Appraisal

GIMBEL BROTHERS, INC.



BUSINESS: Gimbel Brothers operates three department stores in New York City, one in Philadelphia and others in Chicago, Pittsburgh and Milwaukee. Saks-Fifth Avenue, one of the three New York stores, has eight branches in outlaying suburban communities. The New York stores, which include Gimbel Brothers and Sak's Thirty-Fourth Street as well as Sak's Fifth Avenue furnish approximately 50 per cent of gross income. The Fifth Avenue store caters to a high income group while the other two stores compete largely upon a lower price basis.

FINANCIAL POSITION: The company maintains a high current asset ratio. Working capital is substantial but cash items are relatively small. Inventories and accounts receivable make up the bulk of current assets. The funded debt consists of about $750,000 of serial notes, $26,000,000 of real estate mortgages and 196,986 shares of $6 dividend preferred stock followed by 977,300 shares of no par value common stock. Although full preferred dividends have been paid ever since the shares were issued in 1936 no common dividends have ever been distributed

OUTLOOK: The company entered the new year with somewhat lower inventories and since they were mostly acquired at lower prices there was no necessity of a drastic mark down. Indications are that the gradual up-trend in sales will be maintained. Increasing selling prices are likely as are somewhat better profit margins. However, since the last two months of the year are normally the largest as far as sales are concerned, 1940 results will depend strongly upon whether or not the current improvement in public buying power is to be maintained or bettered throughout the year.

MARKET ACTION:	Gimbel Brothers	Market Average	Gimbel's moves in relation to average
'37 high to '38 low	83% decline	64% decline	29% wider
'38 low to '38 high	215% advance	76% advance	183% wider
'38 high to '39 low	60% decline	34% decline	76% wider
'39 low to '39 high	124% advance	44% advance	182% wider

Average volatility on four moves 50% greater on declines but 182% greater on advances than the M. W. S. index of 309 common stocks.

COMMENT: The first 6 months of Gimbel's fiscal year resulted in a loss of $1.35 a share as compared with $1.72 in the same period of 1938. The results of the second half operations are believed to have been profitable and a profit for the year was probably earned.

Long-Term Record

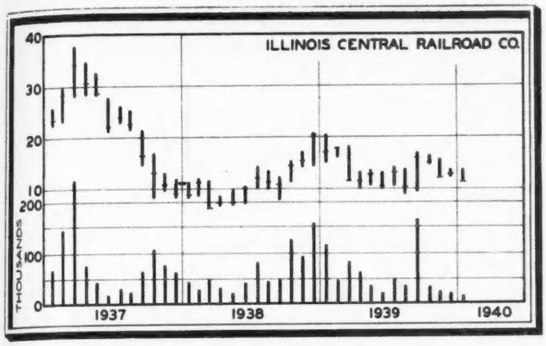
Year*	Net Sales (millions)	Net Income (millions)	Net Per Share	Price Range
1930	$124.6	$ .80	d$ .49	20⅞- 4¼
1931	113.2	.15	d1.11	7⅞- 1¾
1932	98.0	d1.76	d2.96	3¾- ⅞
1933	72.2	d4.41	d5.76	7⅝- ¾
1934	72.9	d .85	d2.05	6⅜- 2⅝
1935	77.2	d .25	d1.43	8¾- 2⅛
1936	82.1	1.34	.22	27½- 6¾
1937	95.7	3.23	2.08	29⅜- 6¼
1938	100.1	2.28	1.12	15¾- 5
1939	88.0	.44	d .76	13⅞- 6¼

*—Fiscal year ends January 31.

Thumbnail Stock Appraisal

Leverage Stocks (cont'd)

ILLINOIS CENTRAL RAILROAD CO.



BUSINESS: The Illinois Central provides a short-line from the Great Lakes to the Gulf of Mexico over a system of about 6,500 miles of road. It serves the fertile and increasingly industrially active Mississippi valley while a subsidiary connects with Birmingham and the East coast of Georgia. Bituminous coal from the Illinois coal fields is the major commodity carried but lumber, automobiles, petroleum products and agricultural products provide an important portion of gross revenues. While the road suffers considerably from water and motor competition, it has been showing gains over its non-railroad competitors in recent years.

FINANCIAL POSITION: The road has been financially restricted since the outset of the depression and has had to have recourse to considerable R. F. C. borrowing to meet debt service, taxes and maturities. The R. F. C. loans total about $35 million but have been extended to May 31, 1944. Apart from this debt, the earliest maturity of any but equipment obligations is 1951. Nevertheless, the company has been successful in covering fixed charges during the past four years but the current asset position is not over strong due in most part to the necessity of maintaining the road and equipment out of cash.

OUTLOOK: The nearer term prospects of the territory served are moderately good and the road stands to benefit from a sustained war abroad through the increase in exports from Gulf ports. The company is not in a position to pay dividends upon its 186,457 shares of non-cumulative preferred stock or upon its 1,357,905 shares of common but since last September the road has been able to carry increasingly large proportion of gross income to net which should somewhat improve the longer term possibilities of the equities.

MARKET ACTION:	Illinois Central	Market Average	Illinois Cent. moves in relation to avge.
'37 high to '38 low	84% decline	64% decline	31% wider
'38 low to '38 high	240% advance	76% advance	215% wider
'38 high to '39 low	57% decline	34% decline	67% wider
'39 low to '39 high	131% advance	44% advance	184% wider

Average volatility on four moves 124% greater than the M. W. S. index of 309 common stocks.

COMMENT: Recent price—12. The shares appear to possess better than average ability to advance in favorable markets due to the rapid build-up of common earnings after the "break even" point is passed.

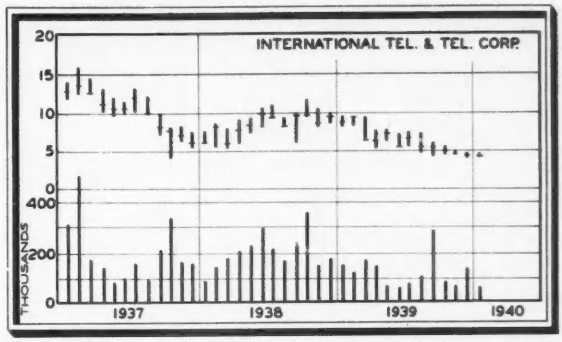
Long-Term Record

Year	Gross Revenues (millions)	Net Income (millions)	Times Fixed Charges Earned	Net Per Share	Price Range
1930	$148.5	$9.29	$1.51	$6.02	136¾-65¾
1931	116.8	d3.58	.80	d3.46	89 - 9⅛
1932	89.3	d3.55	.80	d3.41	24⅞- 4¾
1933	88.0	.16	1.01	d .71	50¾- 8½
1934	91.1	d2.97	.83	d3.01	38⅞-13⅝
1935	97.5	d9.93	.43	d8.14	22¼- 9½
1936	115.0	.77	1.04	d .26	29½-18⅝
1937	114.0	1.96	1.12	.62	38 - 8
1938	105.4	1.22	1.07	.08	20⅞- 6⅛
1939E	111.4	2.34	1.14	.90	20¾- 9

E—Estimated. d—Deficit.

Thumbnail Stock Appraisal

INTERNATIONAL TEL. & TEL. CORP.



BUSINESS: This organization is a holding company for operating units in the telephone, cable, radio communications and manufacturing industries. Telephone interest are confined principally to Europe, South America, the West Indies and Shanghai, China. Cable and radio communication circuits are mostly in South America and the Central American countries. The principal manufacturing plants are located in Europe but the company sells throughout the world with the exception of the United States and Canada. Through control of the Postal Telegraph Co., the company has had some interest in domestic telegraph business but it is divesting itself of this interest. The company's largest interests lie in Argentina with the second largest in Spain.

FINANCIAL POSITION: The company's current financial position is somewhat restricted by the fact that much of the large cash balances of its subsidiaries are barred to it through the many restrictions placed upon the transfer of such funds out of the countries in which they are now located. The $37 million bond issue which matured in January of 1939 was financed partly through the sales of subsidiary securities and the proceeds of a $15 million serial bank loan. The loan matures in 10 years but the annual instalments are well below the fixed charges on the retired bonds.

OUTLOOK: Since 1935 the company's earnings have been aided by the elimination of Postal Telegraph losses. Spanish operations were not included after 1935 because of the civil war. South American prospects are satisfactory and European operations profitable authough the inability of the company to obtain cash from them is a deterring factor. Lower foreign exchange rates will possibly cause a fairly large decline in revenues as well.

MARKET ACTION:	Int'l Tel. & Tel.	Market Average	I. T. T. moves in Rel. to Avge.
'37 high to '38 low	65% decline	64% decline	1% wider
'38 low to '38 high	111% advance	76% advance	46% wider
'38 high to '39 low	67% decline	34% decline	97% wider
'39 low to '39 high	148% advance	44% advance	236% wider

Average volatility 97% greater than the M. W. S. index of 309 common stocks.

COMMENT: Recent price—4. The stock is currently selling at close to its 1939 low. Events abroad are unfavorable to the company for the near term but the shares show unusual recuperative powers in an advancing market.

Long-Term Record

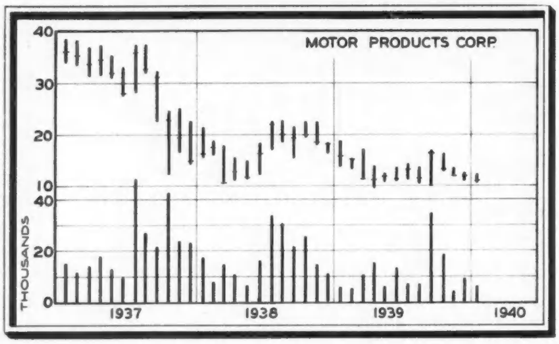
Year	Gross Income (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1930	$102.8	$13.75	$2.07	$2.00	77⅜-17½
1931	87.8	7.65	1.20	1.40	38¾- 7⅛
1932	67.5	d 3.93	d.61	....	15¾- 2⅝
1933	74.0	.69	.11	....	21¾- 5⅛
1934	79.3	2.08	.32	....	17¾- 7½
1935	48.8	2.55	.90	....	14 - 5⅝
1936	53.0	.401	.63	....	19¼-11⅛
1937	63.6	10.24	1.60	....	15⅞- 4
1938	67.5	7.04	1.10	....	11⅝- 5½
1939 (9 mos.)	41.2	3.97	.62	....	9⅝- 3⅞

Note: Postal Telegraph results included only to 1934.
d—Deficit.

Thumbnail Stock Appraisal

10 Low Price, Active

MOTOR PRODUCTS CORPORATION



BUSINESS: The company manufactures and sells a broad line of automobile parts and accessories which includes bumper guards, decorative interior trim, instrument panels, windshield frames, ventilating equipment and various metal parts. One of the more important activities is nickel and chrome plating as well as adding imitation wood finishes to metal.

FINANCIAL POSITION: The company has maintained a satisfactory financial position over a number of years. Current asset ratio has been in excess of 4 to 1 for the past three years while the ratio of cash to current liabilities has consistently been better than 2 to 1 in the same period. There is no funded debt, the sole capital obligation being about 391,254 shares of $10 par value common stock.

OUTLOOK: The company's 1939 earnings were affected by the long Chrysler strike and by the fact that the 1939 automobile models carried less of the company's specialties than in the years before. As a consequence, operations for the full year resulted in a deficit of about $1.50 per share. However, the new models call for considerably more decorative materials which, together with somewhat larger output of the company's principal customers should permit the company to make a more normal showing this year. Profit margins, however, due to increasing competition are not particularly satisfactory although with a normal volume of business they should be adequate to show reasonably good earnings per share. No dividends have been paid since 1937 but prior to that time they were liberal in good business years.

MARKET ACTION:

	Motor Products	Market Average	Motor Prods. Moves in rel. to average
'37 high to '38 low	73% decline	64% decline	14% wider
'38 low to '38 high	116% advance	76% advance	52% wider
'38 high to '39 low	58% decline	34% decline	70% wider
'39 low to '39 high	100% advance	44% advance	127% wider

Average volatility on four moves 66% greater than M. W. S. index of 309 common stocks.

COMMENT: Recent price—11. The shares respond readily to changes in earnings prospects. An element of speculative importance is con tained in the litigation with General Motors over door ventilators upon which the company has had a favorable ruling.

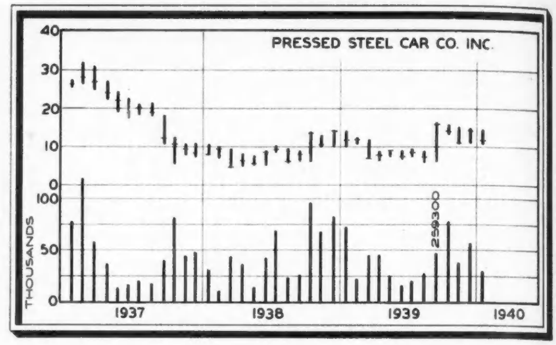
Long-Term Record

Year	Gross Profit (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1930	$1.15	$.49	$2.49	$2.00	81 -25
1931	.45	d.18	d.10	2.00	47⅝-15
1932	d.48	d.52	d2.71	2.00	29⅜- 7⅜
1933	.30	d.22	d1.11		36¾- 7¾
1934	.66	.14	1.69		44¾-15¼
1935	1.83	1.08	2.76	2.00	69 -17⅛
1936	2.49	1.37	3.51	x3.25	43½-28⅜
1937	3.37	2.15	5.49	5.00	38½-12½
1938	.08	d.62	d1.58		22¾-10½
1939 (9 mos.)	.03	d.32	d.82		19 - 9½

d—Deficit. x—Also 100% stock dividend.

Thumbnail Stock Appraisal

PRESSED STEEL CAR COMPANY, INC.



BUSINESS: The present company is the outgrowth of the former company of the same name that went into receivership in 1933. Through the assistance of General American Transportation Co., who furnished part of the necessary funds, a successful reorganization was achieved. Pressed Steel Car Co. is the third largest builder of freight and passenger railroad cars. A number of car accessories and parts are also made.

FINANCIAL POSITION: The company's capital structure consists of $3,900,000 of funded debt, 250,000 shares of 5 per cent dividend, $5 par value, convertible preferred stock, 66,162 shares of 5 per cent dividend, $50 par value second preferred stock and 494,978 shares of $1 par value common. The first preferred is convertible share for share into common and the second preferred is convertible into common in the ratio of one share of second preferred for three shares of common stock. Dividends are not being paid on any of the three equity issues although they are now cumulative on the first preferred stock. A strong cash position has been maintained since formation. The funded debt is being reduced through purchases in the open market.

OUTLOOK: Order backlogs at the beginning of the year were in excess of $17 million and were sufficient to keep operations at high levels well into the second quarter of this year. New orders are somewhat slow at this time but some revival is expected this spring and the company is in a position to benefit from a domestic rearmament program as well as possible foreign orders.

MARKET ACTION:

	Pressed Steel Car	Market Average	Pressed Steel's moves in rel. to Av.
'37 high to '38 low	85% decline	64% decline	32% wider
'38 low to '38 high	205% advance	76% advance	169% wider
'38 high to '39 low	58% decline	34% decline	61% wider
39 low to '39 high	175% advance	44% advance	298% wider

Average volatility on four moves 140% greater than M. W. S. index of 309 common stocks.

COMMENT: Recent price—13. The shares have had a substantial recovery from their 1939 low price. Nearer term prospect of the railroad equipment industry is less favorable than at the close of last year.

Long-Term Record

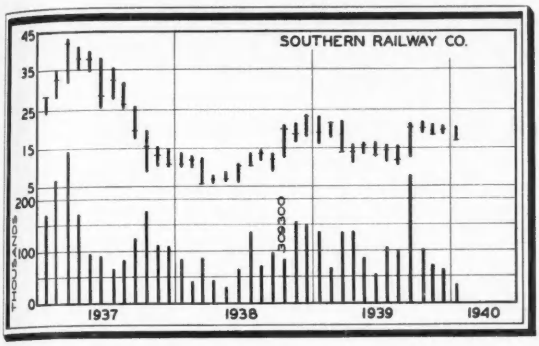
Year	Operating Income (millions)	Net Income (millions)	Net Per Share	Price Range
1930	$1.37	$1.09	$.21	16⅝- 3¼
1931	d1.05	d1.25	d5.56	7⅛- 1¼
1932	d1.12	d1.44	d6.03	4 - ¾
1933R	d.74	d.89	def.	5½- ⅝
1934R	NF	.42	NF	5½- 1¼
1935R	NF	NF	NF	4¼- ⅝
1936R	NF	NF	NF	*28¼-17½
1937	1.27	.73	1.08	31⅞- 5⅛
1938	d.58	d1.17	d3.06	14½- 4¾
1939 (9 mos.)	NF	d.62	d1.60	16½- 6

d—Deficit. NF—not available. *—New common. R—Receivership period

Thumbnail Stock Appraisal

Leverage Stocks (cont'd)

SOUTHERN RAILWAY CO.



BUSINESS: The Southern Railway System serves every state of the South, lying east of the Mississippi River with the exception of West Virginia. The main line is double tracked from Atlanta to Washington, D. C. While the territory served is primarily agricultural, there is a strong industrial growth that promises materially to assist the traffic load of the road. About 20 per cent of gross operating revenues are derived from the products of mines. Improving inbound freight is sharply increasing the importance of miscellaneous and l.c.l. freight which now accounts for more than half of the road's tonnage.

FINANCIAL POSITION: The company has made consistent progress in eliminating much of the debt incurred in depression years. The road's R C C debt and subsidiary obligations as well as expiring equipment issues have been met at maturity and the R F C debt has been reduced to about $27 million without weakening the road's improving cash position. No dividends are being paid on any of the company's stocks but all debt service has been met without difficulty and with the exception of equipment obligations, there are no important maturities until 1944.

OUTLOOK: The outlook for the road and its subsidiaries is good. Continued activities in the steel industry favor all branches of the system. Some further reduction of the R F C loan is likely this year. While full service will be maintained on the $290 million funded debt, no dividends of the 600,000 shares of $5 non-cumulative dividend preferred and the 1,298,200 shares of no-par value common stock are likely in the nearer term.

MARKET ACTION:	Southern Railway	Market Average	Southern's moves in rel. to Avge.
'37 high to '38 low	87% decline	64% decline	35% wider
'38 low to '38 high	32% advance	76% advance	137% narrower
'38 high to '39 low	52% decline	34% decline	53% wider
'39 low to '39 high	109% advance	44% advance	147% wider

Average volatility on four moves 25% greater than M. W. S. index of 309 common stocks.

COMMENT: Recent price—18. The price of the shares has recovered about 50 per cent of its 1939 losses. The road is favored by improving industrial conditions in its service area although it will probably fail to better 1939 results this year.

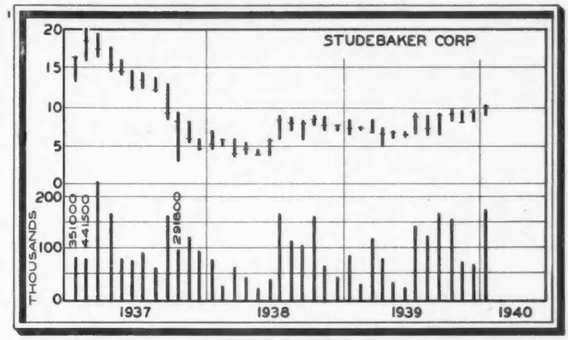
Long-Term Record

Year	Operating Revenues (millions)	Net Income (millions)	Fixed Charge Coverage	Net Per Share	Price Range
1930	$118.9	$9.13	$1.52	$4.72	134¾-46½
1931	97.7	d5.92	.65	d6.87	65⅞- 6⅜
1932	73.0	d11.22	.35	d10.95	18½- 2½
1933	76.1	d.74	.96	d2.88	36 - 4⅛
1934	78.2	d2.80	.83	d4.46	36½-11½
1935	82.9	d1.52	.91	d3.48	16½- 5½
1936	96.3	4.31	1.26	1.01	26½-12¾
1937	98.4	.81	1.05	d1.69	43⅜- 9
1938	89.4	d.50	.97	d2.69	23⅜- 5½
1939	99.2	6.49	1.39	2.69	23¼-11⅛

d—Deficit.

Thumbnail Stock Appraisal

STUDEBAKER CORPORATION (THE)



BUSINESS: The Studebaker Corp. is not only one of the oldest but it is also the leading independent maker of American automobiles. The slump after 1929 resulted in the company's receivership in 1933 but after reorganization in 1935 the company has made considerable progress in recovery. Throughout the period of financial difficulties, the company succeeded in maintaining its trade position.

FINANCIAL POSITION: The company has outstanding $6,490,646 of Debenture 6's due in 1945. The bonds are convertible into common stock at $12.50 a share to December, 1944. The only equity issue is 2,218,792 shares of $1 par value common stock. The company emerged from receivership in a moderate financial position but since that time there has been a gradual improvement. The current asset ratio is better than 2 to 1 and cash items—which constitute about half of the current assets—are in excess of current liabilities. No dividends are paid because of restrictions contained in the indentures securing the debenture issue.

OUTLOOK: The company's unit sales in 1939 were almost double those of the previous year. Further gains are likely in 1940 but at a much more moderate rate. Because of heavy competition from the major automobile makers, profit margins are likely to remain modest but the company will probably somewhat better the estimated 1939 earnings of $1 per share of common stock. The truck division which has been relatively neglected in the past, may also be a source of additional business this year since both domestic and military needs for trucks are expected to improve considerably during 1940.

MARKET ACTION:	Studebaker	Market Average	Studebaker's moves in rel. to avge.
'37 high to '38 low	82% decline	64% decline	28% wider
'38 low to '38 high	161% advance	76% advance	112% wider
'38 high to '39 low	78% decline	34% decline	129% wider
'39 low to '39 high	96% advance	44% advance	118% wider

Average volatility on four moves 97% greater than M. W. S. index of 309 common stocks.

COMMENT: Recent price—12. Last year's sales were about double those of 1938 with demand for the new low priced Champion increasing. The stock is, however, highly volatile and the speculative risk proportionately large.

(1) Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range*
1930	$86.1	$1.00	$.28	$3.75	47¼-18⅛
1931	64.4	.48	d.01	1.20	26 - 9
1932	46.2	d8.35	d3.64	.30	13¾- 2½
1933	36.0	d4.88	NF	....	8⅜- 1½
1934	40.2	d1.46	NF	....	9¼- 1⅞
1935	33.8	d1.98	d.92	....	10½- 2¼
1936	68.9	2.19	1.01	....	15⅝- 9⅛
1937	70.9	.81	.37	....	20 - 3
1938	43.8	d1.76	d.80	....	9⅛- 3½
1939 (9 mos.)	52.9	.38	.17	....	10 - 5⅛

*—Prices to 1935 for predecessor company stock. (1)—Reorganization plan confirmed Nov. 1, 1934. d—Deficit. NF—No tAvailable.

Thumbnail Stock Appraisal

Standard Brands Watches Profit Margins

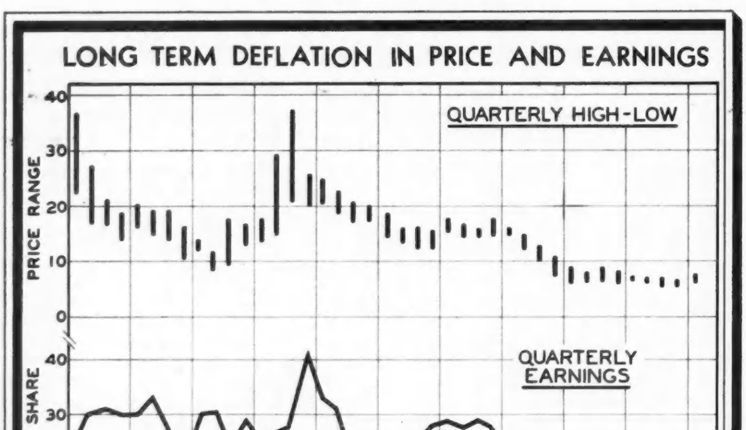
Gains in Volume Have Only Partially Offset Rising Costs

BY WARREN KRAEMER

THOUGH the name Standard Brands may not strike a universally familiar note, almost every person who owns a radio immediately recognizes Chase and Sanborn Dated Coffee or Fleischman's Yeast. And those two, together with Royal Gelatin and Tenderleaf Tea, form the backbone of the Standard Brands group of products. The company is one of the largest distributors of packaged foods in the country and handles about 100 items in a very distinctive manner.

This method of distribution is the answer to the problem of merchandising. It may be summed up as putting it on the shelf and moving it off the shelf, and finds its base back in the history of the most important company that Standard swallowed. Standard Brands was put together by the house of Morgan in the gay days of 1929. And contrary to the sad results of so many of these boom mergers this one was a working success. The primary reason is contained in the fact that although four distinct units were combined to form the big company, actually one of the component parts took over the whole. The powerful division was the Fleischman Co. which is still at the head of Standard Brands.

Fleischman's yeast had its beginning when Charles Fleischman came to this country from Austria-Hungary with a test tube of living bacteria in his pocket and an idea in his head. In the test tube was yeast culture, and the idea was to produce absolutely pure yeast under carefully controlled conditions. No one had ever heard of this proposal before. Yeast as American bakers knew it was just the result of fermentation of potato peelings in a pail, and represented the perfect counterpart of the leaven mentioned in the Bible. But this new thought called for clean production methods and carefully watched and tested operations. It is not surprising that one enterprising man saw the opportunity to raise the quality of bread and encourage the growth of bakeries as an industry.



That man was James Gaff, an Ohio distiller. A short time later, in 1868, he and the man from Austria formed the firm of Gaff, Fleischman and Company to produce spirits and the new Fleischman's yeast. The concern grew, Charles was succeeded by his son Julius Fleischman and by the time of the latter's death in 1925 the Fleischman Co. had a firm grip on over 75 per cent of the yeast business in this country.

Two things had become important as these years passed. One was the absorption of all competition, an easy thing under the control and development patents that the company owned, and the other was a distribution system par excellence. Bread is a necessity, and to make bread there must be yeast; ergo, yeast had to be delivered when it was needed. But yeast is a living plant despite the uniform cakes it comes in, and must be fresh if it is to do its work correctly. Fleischman met this problem by building the most complete and efficient delivery service in this country.

Yeast was delivered come hell or high water to every baker in the country who could see the advantage of using a uniform, clean product that gave the desired results. The company made a creed of never letting its customers down. And just as the show goes on, and the mails go through, Fleischman delivered its yeast.

Gendreau

This might sound somewhat ludicrous if it were not the actual basis for the success of the company. But Fleischman was successful and in 1929 became the hub for an ambitious plan. The Morgan interests rounded up Royal Baking Powder, E. W. Gillet (controlled by Royal stockholders), Chase and Sanborn Coffee, the Wilder Food Products Co., in addition to the Fleischman Co. After all the negotiations were over and Standard Brands had come into existence, the relative importance of the yeast concern can easily be seen from the fact that of 12,648,108 shares of Standard Brands issued, 11,366,967 shares went to the former stockholders of Fleischman.

Any study of the company as it now operates must first concern itself with the sales of baker's yeast, foil wrapped yeast for health, and coffee, since these three products account for over 45 per cent of the gross sales and more than 50 per cent of the profit of the company. Obviously they are of prime importance even though the many other products of the company cannot be ignored as contributors to the yearly sales of more than $110,000,000.

Since the company has built up a distribution system second to none in the entire country, it was a major problem to make it pay dividends when things began to slip in 1929 shortly after Standard was formed. Yeast was sold as a perishable product and deliveries were made regularly to a staggering number of places. Some 600 selling agencies throughout the nation give service to 19,000 towns, cities, and villages by direct personal delivery and to 21,000 additional communities by public carriers. Products go regularly to over 60,000 bakeries, restaurants, etc., and to more than 300,000 grocers.

The company has long been the largest producer of baker's yeast, accounting today for approximately 60 to 65 per cent of the total output in the country. And this position has been built up as the result of giving unusual service that aims at doing more for the baker than just selling him yeast. Today, the company will offer complete layout plans for a model bakery to anyone interested in entering the business, instruction in up-to-the-minute baking methods, and even assist in finding able plant or shop managers. Standard Brands also spends a great deal of money on advertising designed to increase the purchase of goods from professional bakeries.

Thus over the years a rise in the consumption of baker's bread has taken place, but it brought with it a problem for the company. Baker's yeast is a profitable item, but the sale of yeast to the housewife in little cubes was even more so on a percentage basis. Something had to be done! And the result was the beginning of the Yeast For Health campaign. Today the company aims at having every person in the country eat three cakes of yeast per day and helps this idea along with very pointed advertising. It is not, therefore, surprising to find that the sales of this division are estimated at more than $10,000,000 annually. The two yeast divisions brought the distribution system to its present heights. After 1929 there was too much room in the company's trucks and not enough revenue, in the estimation of the powers that were. But none of the other products that figured in the merger were regarded as perishables and seemingly did not merit fast delivery.

Technicians went to work, and in a relatively short time had worked out the very plausible theory that the oil in coffee, which the company was not selling in very large quantities, became rancid after a period, and naturally affected the taste and quality of the brew. On this basis the company set out to make Chase and Sanborn Dated Coffee the largest selling brand in the nation. Overnight it achieved countrywide distribution simply by the magic process of putting it on its trucks. And backed by a strong advertising campaign sales leaped. In 1929 total sales of coffee by the company amounted to 15,000,000 pounds and today, though not on the top, they are well over 100,000,000 pounds yearly with approximately 70 per cent dated coffee and the rest less familiar and cheaper brands.

The Royal Gelatine Division of Standard Brands also distributes its products through the company's delivery system, and by intensive advertising has succeeded in bringing sales up steadily (*Please turn to page 643*)

Another Look at . . .

KROGER GROCERY — PHILIP MORRIS — VICTOR CHEMICAL — PHELPS DODGE — SQUARE D

BY THE MAGAZINE OF WALL STREET STAFF

We here continue the practice of occasional check-ups on securities previously discussed. The purpose is deeper than merely to bring news up to date on individual companies—it is to emphasize the necessity for keeping interpretations up to date. Incidentally, it gives the staff an opportunity to revise some opinions in the light of recent developments, and now and again to say, "I told you so."

* * *

A new trend in food store merchandising has been turned to good advantage by Kroger Grocery and Bakery. The public finds the super-market an ideal place to shop, and Kroger Grocery has opened them where possible. But it has also taken advantage of the opportunity to close relatively unprofitable ordinary units. The consolidation of the buying power formerly spread over two or more stores in a community has brought with it an improved profit margin and a better turn-over of merchandise. The company currently operates about 3,960 stores throughout nineteen Middle Western states, and approximately 2,280 of these have meat markets in connection with the grocery and bakery divisions.

The consolidation and efficiency program has increased the sales ratio and the company now turns over inventory at the rate of thirteen times a year. Close supervision together with increased sales brought Kroger's earnings last year up to $2.90 per share as compared with earnings of $2.05 per share in 1938.

As of the half-way mark last year the company's finances were in excellent shape and showed considerable improvement over the statement covering the end of 1938. Current assets were $36,236,706 of which cash amounted to $15,420,264 compared with current liabilities of only $7,553,782. And inventories were $18,642,218 as against $17,724,759. Throughout all of last year the company sold $243,357,216 worth of merchandise, an increase of slightly more than $1,000,000 per month over 1938 although 33 fewer stores were in operation.

Though the company belongs to a group that is considered relatively stable, this forward trend in its affairs was becoming apparent when it was discussed some ten months ago. The current price level of 29 is only four points above the quotation at that time and the factors making for a continuation of this move are still visible. Earnings showed sharp increases and with them dividends were also moved up. The company paid a total of $2.50 last year, including extras of $0.90, against disbursements of $1.90 per share in 1938. Furthermore, there is strong evidence that the company is still growing. During last year it purchased the Illinois chain of stores formerly known as the Oakley Economy Stores. This group of 58 stores has proved to be a profitable investment and sales are running some 5.5 per cent ahead of 1938 levels.

With the Government relaxing its efforts to penalize the chain stores as a class as a result of pronounced public opposition, and operating economies resulting in improved profit margins, the current outlook for the company continues to be as favorable as when we last discussed it.

* * *

Although it is one of the smaller companies in the chemical industry, Victor Chemical has established itself over a period of thirty-five years as a leading producer of phosphoric acid and high grade phosphates, ranking second only to Monsanto in this division. Its products were originally sold exclusively to the flour mills and baking powder manufacturers, but constant research and expansion has widened the company's scope to the point where it supplies a substantial portion of the phosphates and phosphate derivatives used in the processing of foods, dairy products, pharmaceuticals and textiles. In addition it finds important customers among the oil, leather, fertilizer, steel and metallurgical industries. From a non-chemical byproduct slag the company has developed Tuff-Lite, a lightweight aggregate for concrete construction.

Increased sales have made it possible for the company to carry out a long range expansion and modernization program. The most recent construction in this connection was a $1,000,000 electric furnace near Mt. Pleasant in Tennessee. A twenty-year contract with the T V A insures a plentiful supply of power on favorable terms,

and operating costs of the new furnace are said to compare well with those of the older fuel-fired type. Far from resting on its laurels, Victor Chemical keeps its laboratories at work studying additional products that open new sales fields for the company. Though competition has developed through the entry of other and larger chemical concerns into high grade phosphate production, the position of the company has not been seriously challenged as can be seen from the uptrend of both sales and earnings.

When the company was last discussed almost exactly one year ago the shares had been listed on the Stock Exchange for only slightly more than one year and were selling around 25. The ground gained since then has lifted the shares to approximately 30. That further gains in profits lie ahead is a distinct possibility, and the stock, although not a speculative performer, affords a satisfactory yield. Earnings for the first nine months of last year amounted to $1.06 a share or slightly better than for the full year 1938. And the third quarter returns of $0.43 per share projected into the fourth quarter would result in an estimated $1.50 per share for last year.

* * *

Specializing in the lighter types of electrical equipment, Square D is one of the smaller companies in the field, but has shown a marked ability to operate profitably in an industry that is subject to rather wide cyclical swings. It is the largest manufacturer of electric switches in the country and numbers among its products various types of control systems, fire station equipment, insulators, and lighting and power panels. Under normal business conditions not only does the company derive sales from industrial demand but also from private building and repair work. Earnings have, it is true, shown a considerable range over the last decade, but it would appear that the company possesses certain advantages over the larger units in the field. A dropping off in business can be matched by a reduction in operating expenses to a large extent.

Last year the company made a notable move into a new field by purchasing the Kollsman Instrument Co. This latter concern has been recognized as a leader in the production of precision instruments for aircraft. The great advances made in aviation over the last decade enabled Kollsman Instrument to grow from a small concern formed back in 1928 with an initial investment of $500 to the $4,000,000 business it was when sold last year. The terms of the acquisition of the company by Square D involved the issuance of $2,000,000 par value of 5 per cent preferred stock (convertible into 2½ shares of common) and 35,000 shares of common plus an additional $1,000,000 in preferred stock or 35,000 shares of common to the Kollsman interests. The instrument company's customers include virtually every American airline, U. S. Government forces and many foreign air services. And the backlog of orders on hand as of last November totaled more than $2,000,000.

When Square D was last discussed it appeared that the stock at 21 offered considerable merit as a more volatile issue and in the ten months since that time this has been the case. Selling near 32 the stock appears to offer actually more than it did at that time. The aviation factor combined with the increased sales of its main division place Square D in the class of a more favored speculative issue.

* * *

In less than five years' time Philip Morris has established itself firmly as a successful unit in the cigarette industry. Sales and earnings have made outstanding gains with its leading brand, Philip Morris now standing in fourth place among the leading cigarettes of the country. A large part of this growth has been the result of aggressive and very successful advertising that struck a new note with the public, causing them to switch brands. But this in itself is one reason why the gains cannot be extended at the same rate indefinitely. The increase in total volume of cigarette sales has not been very great during the rise of Philip Morris, and the swings in public favor will tend to modify future gains to a degree. Earnings, however, have been excellent, showing increases commensurate with the growth in sales. For the six months ending last September 30 earnings were $4.40 per share or $3,851,742 as compared with $3,157,967 for the same period in 1938. When the company was last discussed the stock was selling around 95 and now one year later is at exactly the same figure. The slowing down of growth that this reflects is of course to be expected, and it appears that some consolidation of gains is in order. Financially the company is in a strong position and recently took advantage of this to call for redemption 2,668 shares of its 5 per cent preferred stock. Since the shares are convertible into 1½ shares of common on or before March 1, it is to the holders' advantage to do so and will also make it unnecessary for the company to pay $110 per share for it.

* * *

Phelps Dodge is one of the foremost domestic producers of copper. Operations are completely integrated, the mining activities being supplemented by the production of gold, silver and lead, custom ore smelting, and the fabrication of an extensive line of copper products. The industry itself is a leader of the feast or famine group, but the company has shown itself capable of making a profit under all but the most unfavorable industrial and business circumstances.

Earnings for last year are estimated to have been the best since the boom period of 1916-18 with the total placed at $2.55 per share, after allowing for all charges, interest, and depreciation, but before providing for depletion. This would compare with a net of $2.51 per share in 1937, the best year since the last World War. Wide swings in business are of course reflected in the action of the stock, and the shares are currently priced at 37 or actually three points below what they sold for last July. But the lag in the copper market that has brought with it a drop in the price of the red metal shows signs of having reached bottom. And despite the self-sufficiency of the British in the copper market, their ally France has been making inquiries for American metal. A continuation of the war, therefore, is expected to see an increase in foreign demand. This coupled with a firming of the domestic picture might well lift the activity in this field. And Phelps Dodge which is almost exclusively a domestic concern would certainly be favored.

For Profit and Income

It's an Ill Wind

War is undoubtedly an unmitigated evil as far as the belligerents are concerned and for the world as a whole, but it does involve some benefits for a lucky few here and there. One group whose lot should be bettered as a result of the European conflict are U. S. holders of South American dollar bonds. Several nations to the South that have been in default of their external obligations for some time are now contemplating resumption of interest payments and sinking fund operations. The change of heart is directly traceable to markedly improved export balances of these countries since the beginning of the war. The Colombian Embassy has announced that the 1940 coupons on its External Gold 6's of 1961 will be paid at the rate of 3% and that $400,000 will be applied this year to the open market purchase of these bonds for retirement. Resumption of payments on Brazil's dollar debt is also under discussion with every indication that tangible results will be forthcoming. Conversations between American investor representatives and other defaulting Latin American governments may get under way shortly.

Success Story

A recent newcomer among the market's ten most active stocks and selling close to its 1940 high is **Martin-Parry**, formerly a manufacturer of commercial automobile bodies but latterly engaged in the production of drawn metal products, steel wall board, etc. and, since the beginning of the war, gun carriages for England. Cause of the issue's sudden popularity is not far in seeking. Following five losing quarters, a profit of 18 cents a share was realized in the final three months of the fiscal year ended August 31, 1939, after which net jumped to $1.12 per share for the November period. Estimates place results for the current quarter in the neighborhood of $1.60. An interesting sidelight on the company's recent progress has to do with the issue of $300,000 of 5% convertible bonds last May. The obligations were offered to common stockholders and were underwritten by the concern's president and his wife who, as it turned out, had to take down some $270,000 of the issue. Since the conversion price was $2 a share and the stock is now quoted close to $11, the latter investment has now appreciated about 550%.

Consumers' Dollars

Data recently released by the Department of Commerce reveal 1939 retail sales in this country to have totaled some $37,950,000,000, up 7% from 1938 but still about 5% short of 1937. Failure to attain the latter level was due to lower prices as well as lower volume. Far and away the biggest gains for the year were scored in the automotive group which registered an advance of 28%. Next were the furniture and household equipment stores and the mail orders whose sales rose 12½% and 12%, respectively. Filling stations brought up the tail end of the procession with a gain of only 1% but there were quite a few other groups whose increases were under the national average including farm supply and food stores (2%), drug stores (2½%), restaurants (3½%), apparel stores and variety chains (5½%), liquor stores (6%) and department stores (6½%). Well

Westinghouse photo

Production line of electric ranges.

above average were gains in the jewelry and lumber, hardware and building supply groups, amounting to 10% in each case. Retail trade, so often spoken of as something homogeneous and uniform, obviously varies widely in its fluctuations among the durable and luxury categories and the non-durable and necessity goods classifications.

Recovery Aid

President Hoover's recent unqualified prediction of a coming boom in American agriculture as a result of the war abroad will, if it is borne out in fact, mean something of a windfall to the farm equipment companies which, as a group, made a comparatively poor showing last year and would undoubtedly welcome a little prosperity. The mail orders would also rank among the outstanding beneficiaries of such a development though these concerns, judging from current sales and earnings figures, are able to do pretty well even under existing circumstances. The question of Federal farm benefit payments in fiscal 1941 remains up in the air but would be of minor importance should European buying here reach the proportions the ex-President visualizes. The significance of a full fledged farm boom, moreover, would extend considerably further than just those industries directly or exclusively identified with the nation's rural markets and would constitute one of the most important possible aids to further overall economic recovery. It was certainly a large factor in the war boom of twenty odd years ago though the deflation that came after and the farm problem that has been a national liability ever since may temper optimism somewhat in the present instance.

Bear Facts

If trader sentiment is any omen, 1940 has gotten off on a sourer note marketwise than the rather narrow action of the averages since the turn of the year would seem to indicate. Total short interest on the exchange in January gained approximately 20% over December, standing at 454,922 shares at the end of the month. Bearishness has been highly selective, however, with distinctions drawn not only between various industry groups but also between leading issues within the same group. The bear account in **Bethlehem Steel**, for example, was reduced during the period while that in **U. S. Steel** increased. Short commitments also gained on balance in **U. S. Rubber** and **Chrysler** while that in **General Motors** almost doubled. A small army of traders is apparently fighting the rise in **Loft** though with little success thus far. So long as it does not exert undue pressure on prices in the process of accumulation, a rising short interest, since it must ultimately be covered, thus providing a cushion or additional impetus for the market, is essentially a more bullish than bearish factor.

Containers

Earnings of **American Can** last year recovered to the best level since 1930, amounting to $6.22 per share as against $4.35 the year before and $6.08 in 1937. **Continental's** advanced to $2.71 from $2.17 in 1938 but were still appreciably under the $3.06 per share reported for 1937. American's higher percentage profit gain on the year—43% versus 25% for Continental—stemmed directly from a greater proportionate advance in sales—12.2% versus 7.6%. The improvement recorded in both instances was noteworthy, however, since it occurred in the face of a 15% to 20% decrease in the principal vegetable packs and a 2% price rebate granted on packers cans. Rebates will be continued this year but present prospects are for somewhat larger packs. American's paper container division is understood to be showing encouraging progress and both companies have received benefits in recent years from an increasing percentage of canned beer sales in relation to the total amount of beer produced.

Street Notes

New plastics are getting to be an almost daily occurrence, the latest being cellulose acetate butyrate which Tennessee Eastman Corp., rayon subsidiary of **Eastman Kodak**, believes may ultimately take the place of cellulose acetate plastics, now widely used in the manufacture of auto accessories. * * * With earnings last year estimated to have been between $15 and $20 a share, rumors of a split-up in **Aluminum Co.** shares still persist. * * * Largest aircraft backlog in relation to current plant capacity is that of **Brewster Aeronautical**—$22,000,000 against $11,000,000 capacity; hence, company has negotiated the lease of the Newark municipal airport hangar.

Britain Mobilizes on the Financial Front

Recent action of Great Britain in requiring her nationals to sell to the British Treasury (at February 17 prices) all holdings of a list of 60 U. S. industrial securities was taken to make certain that liquidation here "should continue over a period of time at about the average volume of recent months" and to insure that sales "of these securities in the American market shall be orderly." A list of the 60 securities follows:

Allied Chemical.
Allied Stores.
Allis Chalmers.
American Can.
American Radiator.
American Steel Foundries.
American Tobacco.
American Tobacco ("B.")
Atchison Topeka and Santa Fe.
Aviation and Transportation.

Caterpillar Tractor.
Cerro de Pasco Copper.
Colgate Palmolive Peet.
Columbia Gas and Electric 6% Pfd.
Commercial Credit.
Commercial Investment Trust.
Commonwealth Edison.
Consolidated Edison.
Continental Oil.
Corn Products.
Crane Company.
Crown Zellerbach.

Douglas Aircraft.
du Pont de Nemours.

General American Transportation.
H. L. Green.
Greyhound.

Ingersoll Rand.

Johns Manville.

Kennecott Copper.

Loew's Incorporated.
Louisville and Nashville.

Montgomery Ward.

Norfolk and Western.
North American Aviation.
North American Company.

Paramount Pictures.
J. C. Penney.
Phillips Petroleum.
Pure Oil.
Purity Bakeries.

Radio Corp. of America.
Republic Steel.
R. J. Reynolds.

Safeway Stores.
Servel.
Southern Pacific.
Speigel Incorporated.
Standard Oil of California.
Sterling Products.
Swift and Company.

Texas Corporation.
Texas Gulf Sulphur

Union Carbide.
Union Pacific.
United Aircraft.
United Airlines.
United Fruit.
United States Smelting.

Westinghouse Airbrake.

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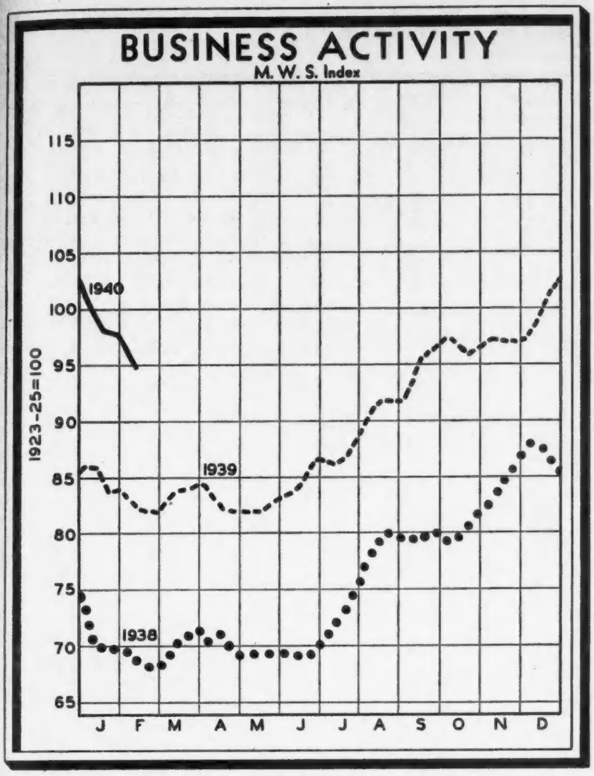

CONCLUSIONS

INDUSTRY—Improvement looked for by April.

TRADE—Retail sales spurt with better shopping weather.

COMMODITIES — Prices firm to higher.

MONEY AND CREDIT — Excess reserves near peak; commercial borrowings decline.

The Business Analyst

Though per capita **Business Activity**, under leadership of steel and cotton cloth production, has dropped nearly three points since our last issue, there are indications that the recession will have burned itself out by the end of the current quarter. Up to present writing, reaction from the year-end peak has amounted to 7% on a weekly basis, while on a monthly basis the dip was less than 1%—with January averaging 99.0, compared with 99.8 in December and 87.0 in January, 1993. In marked contrast with the notable stability of this publication's index of business activity was the sharp drop of 6.7% in the Federal Reserve Board's index of **Industrial Production** (not compensated for population growth), which (at 128) in December was 12 points above our own uncompensated index, while (at 120) in January the spread was only 3 points. This indicates considerable progress toward correction of an unhealthy situation in which production was running too far ahead of general business activity. The next upturn would rest upon a sounder foundation if the present readjustment would continue until production dropped well below general business activity, thereby facilitating a sizeable reduction in **Inventories**.

* * *

There is little prospect, however, that inventories will or should be reduced to pre-war

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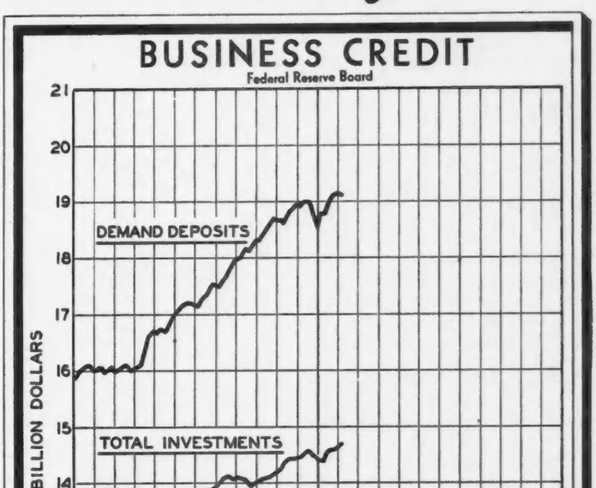


Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Jan.	120	128	101
INDEX OF PRODUCTION AND TRADE (b)	Dec.	95	93	86
Production	Dec.	94	93	85
Durable Goods	Dec.	87	84	69
Non-durable Goods	Dec.	98	97	94
Primary Distribution	Dec.	89	89	79
Distribution to Consumers	Dec.	100	97	92
Miscellaneous Services	Dec.	87	84	83
WHOLESALE PRICES (h)	Jan.	79.3(pl)	79.2	76.9
INVENTORIES (n. i. c. b.)				
Raw Materials	Nov.	93.0	91.4	103.3
Semi-Finished Goods	Nov.	89.6	92.8	110.7
Finished Goods	Nov.	114.6	111.8	111.4
COST OF LIVING (d)				
All items	Dec.	85.3	85.7	85.8
Food	Dec.	78.5	79.6	80.3
Housing	Dec.	86.6	86.7	86.2
Clothing	Dec.	72.9	72.9	73.0
Fuel and Light	Dec.	85.6	85.6	86.0
Sundries	Dec.	96.8	96.8	96.8
Purchasing value of dollar	Dec.	117.2	116.7	116.6
NATIONAL INCOME (cm)†	1939	$68,500	......	$63,993
CASH FARM INCOME†				
Farm Marketing	Dec.	$651	$665	$613
Including Gov't Payments	Dec.	743	740	652
12 Months	1939	8,518	......	8,081
Prices Received by Farmers (ee)	Jan.	99	96	94
Prices Paid by Farmers (ee)	Jan.	128	122	120
Ratio: Prices Received to Prices Paid (ee)	Jan.	81	79	78
FACTORY EMPLOYMENT (f)				
Durable Goods	Dec.	100.0	98.2	83.8
Non-durable goods	Dec.	107.9	109.2	103.8
FACTORY PAYROLLS (f) (not adjusted)	Dec.	103.9	101.8	87.1
RETAIL TRADE				
Department Store Sales (f)	Jan.	92	96	88
Chain Store Sales (g)	Jan.	113.5	120.0	107.5
Variety Store Sales (g)	Jan.	116	130	113
Rural Retail Sales (j)	Jan.	134.5	132.4	120.0
Retail Prices (s) as of	Feb. 1	92.3	92.0	89.1
FOREIGN TRADE				
Merchandise Exports†	Dec.	$357.5	$286.9	$266.4
Cumulative year's total† to	Dec. 31	3,123.8	......	3,057.2
Merchandise Imports†	Dec.	232.7	214.5	165.4
Cumulative year's total† to	Dec. 31	2,276.3	......	1,949.6
RAILROAD EARNINGS				
Total Operating Revenues★	1939	$3,995,071	......	$3,564,830
Total Operating Expenditures★	1939	2,918,216	......	2,721,494
Taxes★	1939	355,766	......	340,695
Net Rwy. Operating Income★	1939	588,801	......	373,151
Operating Ratio %	1939	73.05	......	76.34
Rate of Return %	1939	2.26	......	1.43
BUILDING Contract Awards (k)	Jan.	$103.7	$354.1	$103.8
F. H. A. Mortgages				
Selected for Appraisal†	Jan.	70.9	67.1	77.6
Accepted for Insurance†	Jan.	48.8	53.2	42.2
Premium Paying†	Jan.	65.1	64.8	55.4
Building Permits (c)				
214 Cities†	Jan.	$59.9	$63.2	$70.0
New York City†	Jan.	24.7	13.4	23.6
Total, U. S.†	Jan.	84.6	76.6	93.6
Engineering Contracts (En)†	Jan.	192.0	190.3	311.7

PRESENT POSITION AND OUTLOOK

(Continued from page 631)

levels; for, as the conflict spreads and becomes more active, there will be greater demand for our products, at rising **prices**, though inflation will not be so pronounced as in 1916-18, unless this country should enter the fray. Thus far our **raw material price** index, after a spurt of 15 points, or 23%, between August 26 and September 23, has since lost 8 points, or a little more than half of its advance, leaving a net rise of 11% since September 1st, compared with an advance of 5.6% in **wholesale prices** and a gain of 3.1% in **retail prices.**

* * *

There is little in the record to support the President's fear that another business slump will result from too drastic cuts in Government spending. Reduction in Federal expenditures between the fiscal years ended June 30, 1936 and 1937, amounted to only $223,000,000, or 2.6% and was obviously not responsible for the 1937-8 depression, which was precipitated by a drastic cut in **excess reserves** at a time when inventories had become top-heavy in consequence of a too rapid rise in wages, costs and prices.

* * *

According to the National Industrial Conference Board, **unemployment** rose 93,000 in December, to a total of 8,428,000, compared with 9,304,000 in December, 1938. Agriculture was responsible for the December rise. **New orders** booked in December, were still 18% above August; though off nearly 1/3 from the September peak. Factory **inventories** rose 12% during the first four months of the war. **Chain store sales** in January were 12.4% above last year, with **mail order sales** up 21%, and **variety stores** gaining 5.5%. With the passing of southern snow storms, **department store sales** in the week ended February 3 spurted to 9% above last year, compared with a four-week's gain of only 5%.

* * *

Carloadings, though declining at a somewhat greater than normal seasonal rate, are currently nearly 15% above last year. Railroad net income after all charges last year was close to the $98,000,000 reported for 1937.

* * *

Building permits, valued at $1,226,000,000, for 343,000 family dwelling units were issued last year, 288,000 of which were to be financed privately and the remaining 55,000 by U. S. H. A. Grand total was 39% above 1938; but privately financed projects gained only 20%. **Mortgages** on 10,800 new homes were selected in January for appraisal by the FHA, compared with 10,174 a year ago, a fair showing considering the weather. Privately financed **construction contracts** awarded during January in 37 states east of the Rockies were about on a level with last year; but public awards were down 37%, causing a net decline of 22%. **Engineering construction** awards in the week ended Feb. 8 were 38% above last year, against a 24% decline for the first six weeks of 1940.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Jan.	5,018	5,164	3,174
Pig Iron Production in tons★	Jan.	3,600	3,768	2,175
Shipments, U. S. Steel in tons★	Jan.	1,146	1,444	871
AUTOMOBILES				
Production				
Factory Sales	Dec.	452,024	351,782	388,346
12 Months	1939	3,577,058	......	2,489,635
Registrations				
Passenger Cars, U. S. (p)	1939	2,655,833	......	1,891,021
Trucks, U. S. (p)	1939	487,288	......	365,349
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Jan.	335.2	318.5	285.6
Shipments, U. S. & Canada★ (tons)	Jan.	325.2	342.9	274.8
Mill Stocks, U. S. & Canada★ (tons)	Jan.	192.4	182.5	190.8
LIQUOR (Whisky)				
Production, Gals.★	Dec.	8,033	8,946	11,003
Withdrawn, Gals.★	Dec.	7,704	10,385	7,665
Stocks, Gals.★	Dec.	465,018	465,934	466,785
GENERAL				
Paperboard, new orders (st)	Dec.	393,123	414,224	334,711
Railway Equipment Orders (Ry)				
Locomotive	Jan.	28	15	8
Freight Cars	Jan.	209	100	3
Passenger Cars	Jan.	5	106	47
Cigarette Production†	Dec.	12,803	14,461	12,656
Bituminous Coal Production★ (tons)	Jan.	46,155	37,283	35,750
Boot and Shoe Production Prs.★	Jan.	33,000(pl)	23,412	25,710
Portland Cement Shipments★	Dec.	6,791	10,147	6,290
Commercial Failures (c)	Jan.	1,237	882	1,567

PRESENT POSITION AND OUTLOOK

Domestic retail sales of **automobiles** in the final third of January spurted to 32% above last year, bringing the month's total up to around 280,000 units—a 30% increase over January of 1939, despite poor driving weather. Production currently is running about 14% above last year, though declining at a somewhat greater than normal seasonal rate.

* * *

Department of Commerce reports that manufacturers' **inventories** rose $1,000,000,000 during the fourth quarter of 1939; but expects that inventory liquidation this year will not exceed $400,000,000, compared with $1,400,000,000 during the collapse of 1937-8; since, due to the war, producers are now disposed to hold larger stocks than in 1937. **Bituminous coal** stocks increased 11,200,000 tons, or 25%, during the fourth quarter.

* * *

Equipment orders during January consisted of 209 freight cars, 5 passenger cars and 28 locomotives; compared with 3, 47 and 8, respectively, a year ago. **Lumber** orders in the week ended Feb. 3, though 1% below last year, were 11% ahead of production. **Paperboard** production in December was 31% above the like period a year earlier, compared with 30% for all of 1939. Unfilled orders on Jan. 1 were 84% higher than at the like date last year.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Feb. 10	94.9(pl)	96.4	82.2
ELECTRIC POWER OUTPUT				
K.W.H.†	Feb. 10	2,523	2,541	2,268
TRANSPORTATION				
Carloadings, total	Feb. 10	626,903	657,004	576,352
Grain	Feb. 10	29,174	32,080	28,809
Coal	Feb. 10	145,661	158,635	131,605
Forest Products	Feb. 10	29,263	31,374	23,539
Manufacturing & Miscellaneous	Feb. 10	244,034	25,,963	218,649
L. C. L. Mdse	Feb. 10	147,442	146,788	148,406
STEEL PRICES				
Pig Iron $ per ton (m)	Feb. 13	22.61	22.61	20.61
Scrap $ per ton (m)	Feb. 13	17.00	17.08	15.00
Finished c per lb. (m)	Feb. 13	2.261	2.261	2.286
STEEL OPERATIONS				
% of Capacity week ended (m)	Feb. 17	68.5	71.5	55.0
CAPITAL GOODS ACTIVITY				
(m) week ended	Feb. 10	86.6	89.5	78.6
PETROLEUM				
Average Daily Production bbls.★	Feb. 10	3,067	3,499	2,663
Crude Runs to Stills Avge. bbls.★	Feb. 10	3,460	3,395	3,027
Total Gasoline Stocks bbls.★	Feb. 10	91,649	89,337	81,544
Fuel Oil Stocks, bbls.★	Feb. 10	75,897	75,771	82,981
Crude—Mid-Cont. $ per bbl	Feb. 16	1.02	1.02	1.02
Crude—Pennsylvania $ per bbl	Feb. 16	2.23	2.23	1.36
Gasoline—Refinery $ per gal	Feb. 16	.06⅝	.06⅝	.05⅞

PRESENT POSITION AND OUTLOOK

While the cold snap has added somewhat to the demand for **electric power,** output of recent weeks has been declining more than seasonally due to slowing down in industrial activity. Pressure by the SEC to expedite reorganizations under the Utilities Act has occasioned some concern among holders of securities issued by holding companies which are heavily in arrears on preferred dividend payments.

* * *

With incoming orders holding around, or slightly below, 45% of capacity, the **steel operating rate** continues to seek lower levels; but prices thus far have held encouragingly at published schedules. Chairman Weir, of National Steel, and President of the American Iron and Steel Institute, believes that some improvement should be witnessed next month and predicts that the industry's operating rate will average somewhere between 60% and 70% for the remainder of the first half year.

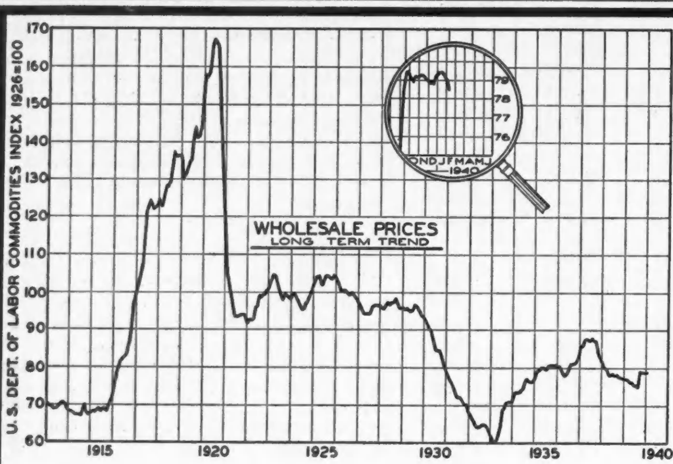
* * *

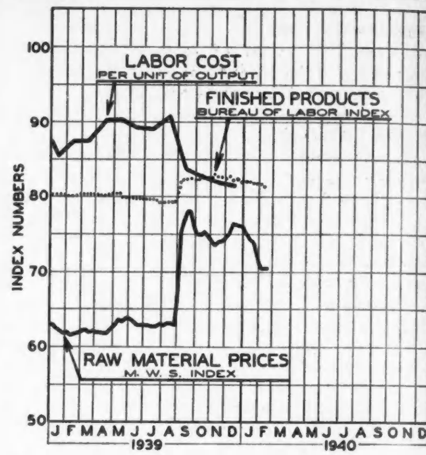
Lessened prospects of bringing **oil** output under Federal control, opposition by the Justice Department to efforts to secure Government title to submerged oil lands, and a recent federal court ruling that oil companies need not pay unemployment and old age taxes of bulk plant operators, have brought some cheer to the industry; but **gasoline** inventories are still high.

†—Millions. ★—Thousands. (a)—Federal Reserve 1923-25—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreets. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News Record. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. In. Conf. Bd. 1936—100. (p)—Polk estimates. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

Trend of Commodities

Following the Lincoln's birthday holiday, most commodity prices have displayed a firm to higher tone. Several factors apparently influenced this trend, including quiet strength in the stock market, a more war-like tone in the European news and the growing belief that the downtrend in general business will flatten out next month. Other favorable developments included accumulating evidence that inventory buying in the final quarter last year did not attain excessive proportions, surprisingly good figures on the domestic copper industry and indications of awakening interest on the part of industrial buyers. Wheat was the feature of the more volatile commodities at the close of the past week, prices registering the sharpest gains since mid-December. Short covering was very much in evidence. Action of the wheat market is probably a cue as to what to expect for an indefinite period of other volatile commodities.





Changes in Major Commodity Price Groups for the Fortnight Ended Feb. 10, 1940

Farm Products	68.9	down 0.3	Metals	95.5	down 0.2
Foods	70.9	down 0.5	Building Material	93.1	down 0.6
Hides and Leather	103.2	down 0.7	Chemical	77.3	down 0.3
Textiles	75.3	down 1.4	Housefurnishings	89.5	down 0.7
Fuel and Lighting	73.0	up 0.4	Miscellaneous	77.1	down 0.3

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
May	Feb. 17	10.92	10.88	8.07
July	Feb. 17	10.53	10.55	7.81
Spot	Feb. 17	11.18	11.17	8.94
(lh bales 000's)				
Visible Supply, World	Feb. 17	(X)	(X)	......
Takings, World, wk. end	Feb. 17	(X)	(X)	......
Total Takings, season Aug. 1 to	Feb. 17	(X)	(X)	......
Consumption, U. S.	Jan.	730	665	598
Exports, wk. end	Feb. 16	204	260	63
Total Exports, season Aug. 1 to	Feb. 16	4,462	4,257	2,363
Government Crop Est. (final)	1939	11,792	......	11,943(ac)
Active Spindles (000's)	Dec.	22,778	22,774	22,443
WHEAT				
Price cents per bu. Chi. closing				
May	Feb. 17	102⅞	99½	67⅞
July	Feb. 17	100⅝	96¾	68⅛
Exports bu. (000's) since July 1 to	Feb. 10	80,863	78,088	96,910
Exports bu. (000's) wk. end	Feb. 10	2,775	4,138	2,980
Visible Supply bu. (000's) as of	Feb. 10	104,221	106,736	94,299
Gov't Crop Est. bu. (winter) (ooo's)	Dec. 1	399,000	......	563,431(ac)
CORN				
Price cents per bu. Chi. closing				
May	Feb. 17	56½	56	48¾
July	Feb. 17	57⅛	56¼	50⅛
Exports bu. (000's) since July 1 to	Feb. 10	19,961	17,803	59,270
Visible Supply bu. (000's) as of	Feb. 10	40,259	40,355	47,243
Gov't Crop Est. bu. (000's) (final)	1939	2,619,137	......	2,562,197(ac)

PRESENT POSITION AND OUTLOOK

Cotton. The official report placed January consumption at 730,143 bales the largest for any single month, with the exception of the 777,000-bale figure for March, 1937. The total consumption of 4,041,845 bales for the first six months of the current cotton year was the largest in history for that period. Mills are maintaining output at a rate much in excess of new orders, with the result that backlogs have been substantially depleted. With production running well ahead of consumption, in the absence of a renewed buying movement, early curtailment will be necessary to avoid unpleasant consequences. Export shipments continue large, although new buying is barely more than nominal.

* * *

Wheat. The sharp run-up in wheat at the close of the past week caught most traders off base, with the result that short covering at times attained the frantic stage. No salient reason could be found for the sudden strength. Pacific coast sales to Russia during the past fortnight were estimated as high as 4,500,000 bushels. Substantial sales of Canadian wheat for the account of Great Britain were also reported. Reports from Argentina place the 1939-40 crop at the smallest yield in many years.

* * *

Corn. Although failing to respond noticeably to the spectacular action of wheat, corn prices have held firm.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Feb. 17	11.25	11.25	11.25
Exports f. a. s. N. Y.	Feb. 17	11.50	11.30	......
Refined Prod., Domestic (tons)	Jan.	84,421	......	66,316
Refined Del., Domestic (tons)	Jan.	91,428	......	51,059
Refined Stocks, Domestic (tons)	Jan. 31	135,441	159,485	301,244
Refined Prod., World (tons)	July	158,236	173,205	139,483
Refined Del., World (tons)	July	181,487	180,433	177,580
Refined Stocks, World (tons)	July 31	490,419	513,670	523,196
TIN				
Price cents per lb., N. Y.	Feb. 17	45⅛	45¼	45⅜
Tin Plate, price $ per box	Feb. 17	5.00	5.00	5.00
World Visible Supply† as of	Jan. 31	35,573	38,280	39,100
U. S. Deliveries†	Jan.	9,780	11,366	4,330
U. S. Visible Supply† as of	Jan. 31	16,202	15,965	10,166
LEAD				
Price cents per lb., N. Y.	Feb. 17	5.00	5.00	4.75
U. S. Production (tons)	Dec.	45,615	48,467	34,683
U. S. Shipments (tons)	Dec.	44,881	64,365	33,908
Stocks (tons) U. S., as of	Dec. 31	58,777	58,061	115,902
ZINC				
Price cents per lb., St. Louis	Feb. 17	5.50	5.50	4.50
U. S. Production (tons)	Jan.	57,158	57,941	44,277
U. S. Shipments (tons)	Jan.	49,914	53,468	42,639
Stocks (tons) U. S., as of	Jan.	65,602	65,995	128,407
SILK				
Price $ per lb. Japan xx crack	Feb. 17	3.00	3.17½	2.09½
Mill Dels. U. S. (bales), season to	Jan.	29,506	21,128	40,816
Visible Stocks N. Y. (bales) as of	Jan. 31	59,225	55,610	48,554
RAYON (Yarn)				
Price cents per lb.	Feb. 17	53	53	51
Consumption	Jan.	31.9	32.0	27.1
Stocks as of (a)	Jan. 31	7.0	6.4	39.5
WOOL				
Price $ per lb. tops, N. Y.	Feb. 17	1.05	1.06	.86½
HIDES				
Price cents per lb. No. 1 Packer	Feb. 17	13½	13¼	10
Visible Stocks (000's) (b) as of	Jan. 1	12,792	12,575	13,645
No. of Mos. Supply as of	Jan. 1	7.3	6.8	8.3
RUBBER				
Price cents per lb.	Feb. 17	.1913	.1925	.1628
Imports, U. S.†	Jan.	72,496	71,395	39,082
Consumption, U. S.†	Jan.	54,978	48,428	46,234
Stocks U. S. as of	Jan. 31	156,830	140,280	237,826
Tire Production (000's)	Dec.	4,479	4,867	4,814
Tire Shipments (000's)	Dec.	4,740	4,244	4,282
Tire Inventory (000's) as of	Dec. 31	8,688	9,244	8,451
COCOA				
Price cents per lb. May	Feb. 17	5.25	5.25	4.43
Arrivals (thousand bags)	Jan.	362	271	253
Warehouse Stocks (thousand bags)	Feb. 16	1,115	1,115	1,012
COFFEE				
Price cents per lb. (c)	Feb. 17	7¼	7½	8
Imports, season to (bags 000's)	Jan. 31	8,117	7,199	8,103
U. S. Visible Supply (bags 000's)	Feb. 1	1,451	1,563	1,454
SUGAR				
Price cents per lb.				
Raw	Feb. 17	2.82	2.82	2.76
Refined (Immediate Shipment)	Feb. 17	4.40	4.50	4.30
U. S. Deliveries (000's)*	1939	6,722(pl)	......	6,574
U. S. Stocks (000's)* as of (rr)	Dec. 31	831.9	......	628.0

PRESENT POSITION AND OUTLOOK

Copper. To the surprise of many, domestic copper statistics for January disclosed a sharp drop in stocks of refined copper. Stocks of refined at the month-end were down 24,044 tons. Stocks of blister, however, rose 5,440 tons, making the net decrease in all stocks 18,604 tons. Domestic deliveries of 91,428 tons for January were practically the same as the average for the five months to December, last. Production of both crude and refined in January ran well above the five months' average. Sales have responded to the favorable implications of the latest statistics and thus far this month are running ahead of January. Export demand also has been good.

* * *

Tin. Demand as been flat as a pancake. Prices for the most part have held within the recent narrow range. Reports of concern in Great Britain over re-exports of tin from the U. S. to Russia and Sweden, thence to Germany, have been followed by reports that domestic importers will agree to export prohibition conditions.

* * *

Lead. Buying, although not dynamic, has been sufficiently persistent to satisfy the trade. Production is understood to be at about the December level.

* * *

Zinc. January statistics were favorable. Shipments were up 4,083 tons and stocks at the end of the month were slightly lower. Market is dull and inactive.

* * *

Silk. Both consumption and production declined in Japan in January, although the cumulative figures for the season are still ahead of a year ago. Domestic consumption for February is being estimated between 23,000 and 25,000 bales, which would compare with 29,500 bales in January.

* * *

Wool. Mills are resisting the normal seasonal decline, being busy on backlogs. While consumers' inventories are sizable, no difficulty is anticipated if spring retail demand is normal.

* * *

Hides. Market has been without particular feature. Price fluctuations have been narrow, following for the most part the trend of the stock markets. Heavy export sales of Argentine hides reported.

* * *

Rubber. January imports of crude rubber totaling 72,496 long tons set a new high record. As a result stocks at the end of the month increased 16,550 long tons, but were still nearly 30% lower than at the end of January a year ago. Recent advance in tire prices by a leading manufacturer has not been general throughout the industry.

* * *

Cocoa. The intentions of the British Cocoa Control still remain in the dark. Although not unanimous, the belief is general that Great Britain will attempt to market cocoa at the best prices obtainable here, perhaps above normal, for the purpose of obtaining dollar exchange.

* * *

Sugar. Domestic raw prices have shown a firm undertone. World prices rose moderately near the end of last week, apparently in response to war news. Refined deliveries are reported normal for this season.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (pl)—Preliminary. (rr)—Raw and refined. (X)—No foreign statistics allowed to be sent from abroad because of war conditions.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Feb. 17	1¼%	1¼%	1¼%
Prime Commercial Paper	Feb. 17	½-¾%	½-¾%	⅝-1%
Call Money	Feb. 17	1%	1%	1%
Re-discount Rate, N. Y.	Feb. 17	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Feb. 10	2,256	2,530	2,077
Cumulative year's total to	Feb. 10	14,906	......	13,588
Bank Clearings, N. Y.	Feb. 10	2,752	4,053	3,200
Cumulative year's total to	Feb. 10	19,987	......	21,028
F. R. Member Banks				
Loans and Investments	Feb. 7	23,199	23,174	21,450
Commercial, Agr., Ind. Loans	Feb. 7	4,314	4,295	3,745
Brokers Loans	Feb. 7	608	614	786
Invest. in U. S. Govts	Feb. 7	8,910	8,877	8,174
Invest. in Govt. Gtd. Securities	Feb. 7	2,411	2,414	1,808
Other Securities	Feb. 7	3,371	3,384	3,300
Demand Deposits	Feb. 7	19,108	19,199	16,076
Time Deposits	Feb. 7	5,256	5,257	5,174
New York City Member Banks				
Total Loans and Invest.	Feb. 14	8,785	8,790	7,725
Comm'l Ind. and Agr. Loans	Feb. 14	1,650	1,654	1,358
Brokers Loans	Feb. 14	465	467	660
Invest. U. S. Govts	Feb. 14	3,349	3,394	2,621
Invest. in Gov't Gtd. Securities	Feb. 14	1,273	1,259	1,028
Other Securities	Feb. 14	1,245	1,216	1,159
Demand Deposits	Feb. 14	8,659	8,719	6,809
Time Deposits	Feb. 14	640	640	624
Federal Reserve Banks				
Member Bank Reserve Balance	Feb. 14	12,151	12,097	8,707
Money in Circulation	Feb. 14	7,411	7,403	6,695
Gold Stock	Feb. 14	18,063	17,998	14,772
Treasury Currency	Feb. 14	2,977	2,973	2,719
Treasury Cash	Feb. 14	2,385	2,365	2,771
Excess Reserves	Feb. 14	5,580	5,520	3,170
		Latest Month	Last Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	Jan.	165.5	221.3	16.3
New Capital	Jan.	32.0	21.4	5.9
Refunding	Jan.	133.5	90.8	10.4

COMMENT

With the addition of $60,000,000 in the latest week, excess reserves have risen to within $10,000,000 of the record high of $5,590,000,000 made three weeks ago. It is practically a foregone conclusion that new heights will be attained in the not distant future. The rate at which gold continues to pour in would seem to assure that. In the latest week gold stocks rose $65,000,000, bringing total holdings up to a new high, at $18,063,000,000. Shipments of gold to the United States in recent weeks have been averaging more than $60,000,000. An interesting sidelight on this gold flow is the recently announced intention of the British government to purchase from British owners all holdings of a list of 60 stocks of American corporations. The list will probably be enlarged in the future. The implications of this move are that not only is Great Britain reluctant to further deplete gold stocks for the purpose of paying for war purchases, but that the United States has probably hinted that dollar exchange obtained through the sale of American stocks held in Great Britain would be more acceptable.

* * *

Loans to commerce, industry and agriculture as reported by **New York City Member Banks** continue to recede, the decline in the latest week amounting to $4,000,000 with the total reaching a new low for the season. A reversal in the recent trend of bank borrowings in the next few weeks would suggest that the expected spring upturn in business was beginning to materialize. In the latest week New York banks reduced their holdings of direct Government bonds $45,000,000, while holdings of Government guaranteed issues rose $14,000,000 and other securities were up $29,000,000.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues	(1925 Close—100)	1940 Indexes High	Low	Feb. 10	Feb. 17
309	COMBINED AVERAGE	66.4	62.1	64.0	64.4
5	Agricultural Implements	103.0	91.4	95.0	96.1
6	Amusements	28.6	26.4	28.6	28.5
15	Automobile Accessories	89.5	82.1	88.1	89.5
12	Automobiles	11.9	10.8	11.4	11.9
12	Aviation (1927 Cl.—100)	203.3	185.3	203.1	203.3
3	Baking (1926 Cl.—100)	12.0	11.2	11.7	11.2
3	Business Machines	117.3	113.8	114.7	115.8
9	Chemicals	173.3	160.3	166.6	164.1
20	Construction	33.6	31.0	32.1	32.7
5	Containers	237.8	223.2	235.3	237.8
9	Copper & Brass	100.0	91.0	95.7	98.8
2	Dairy Products	32.6	30.8	32.3	32.6H
7	Department Stores	20.9	19.9	20.3	20.5
6	Drugs & Toilet Articles	47.1	45.9	46.6	47.0
2	Finance Companies	274.5	266.0	274.5	266.0
7	Food Brands	109.7	96.4	107.5	109.7 R
3	Food Stores	48.0	44.8	47.4	48.0
4	Furniture & Floor Covering	56.9	52.5	54.8	54.4
3	Gold Mining	968.7	901.6	907.4	901.6
6	Investment Trusts	23.8	21.2	22.6	22.0
3	Liquor (1932 Cl.—100)	156.0	150.0	154.9	156.0
9	Machinery	116.2	109.0	111.5	109.4

No. of Issues	(Nov. 14, 1936 Close—100)	1940 Indexes High	Low	Feb. 10	Feb. 17
100	HIGH PRICED STOCKS	67.09	64.02	65.97	65.99
100	LOW PRICED STOCKS	58.67	54.25	55.78	56.49
2	Mail Order	93.2	87.7	91.6	91.4
4	Meat Packing	58.7	52.7	57.9	58.7
13	Metals, non-Ferrous	157.9	147.0	150.3	153.8
3	Paper	14.9	13.4	14.8	14.7
22	Petroleum	86.8	80.9	81.8	81.8
18	Public Utilities	57.6	50.1	51.2	50.1
3	Radio (1927 Cl.—100)	11.1	10.4	10.8	10.9
9	Railroad Equipment	53.2	45.5	48.8	47.5
22	Railroads	13.6	12.0	12.5	12.7
2	Realty	2.6	2.4	2.6	2.6
2	Shipbuilding	82.6	73.5	78.3	82.6
11	Steel & Iron	85.9	75.7	79.2	79.0
2	Sugar	28.7	24.3	25.7	27.2
2	Sulphur	171.7	162.1	169.6	171.7
3	Telephone & Telegraph	47.5	43.1	44.9	44.5
4	Textiles	54.1	49.9	51.4	52.5
4	Tires & Rubber	15.2	14.1	14.6	14.7
4	Tobacco	88.7	86.5	88.6	88.4
4	Traction	40.2	35.3	39.2	40.2H
4	Variety Stores	239.3	230.7	239.3	235.8
20	Unclassified (1939 Cl.—100)	103.9	97.6	98.4	100.0

R—New HIGH record since 1932. H—New HIGH since 1937.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

National Supply Co.

What is likely to be the effect upon the common shares of National Supply should arrears on the preferred be paid in the near future? I have been holding 125 shares of common bought at 21½ since 1938 and was encouraged by recent reports of sharp sales increases. Are satisfactory profit margins being maintained? Under the circumstances, do you believe I should disturb my present holdings?—K. F. G., Dallas, Tex.

National Supply Co., a leader in its field, is engaged principally in supplying the petroleum industry with equipment, machinery and supplies used in the drilling of wells. The fortunes of the concern depend primarily upon conditions in the oil industry in general. Reflecting the inherently unstable nature of its chief customer, earnings in recent years have been highly erratic. Good sized losses were incurred in the five years ended with 1935. Profitable operations were then resumed and in 1937 earnings of $4.90 per common share were realized. A loss of 88 cents a share was incurred in 1939 in contrast to a deficit of 79 cents a share in 1938. Finances are in good shape. The 1,155,517 common shares are preceded in claim by 279,548 $2 preference shares, 226,404 $5.50 prior preferred stock, 64,687 $6 prior preferred shares, $7,500,000 of funded debt and bank loans of $2,500,000. Pipe prices have been advanced and domestic sales are increasing as are foreign orders. Accordingly with profit margins wider, good sized earnings gains would appear in prospect. Preferred dividend arrears preclude early resumption of common payments. With profitable operations said to have been resumed and the upward trend likely to continue we see no reason why present speculative holdings should be disturbed.

National Cash Register

Are sales of National Cash Register being maintained at the November rate? What about Canadian outlets? Does the outlook for this company, obscured somewhat by war restrictions, still warrant holding 150 shares bought at 29⅛? Would you kindly furnish me with the latest data and your own expectations for this stock?—N. A. R., Boston, Mass.

National Cash Register reported earnings of 80 cents per share for the first nine months of 1939, somewhat below the $1.04 per share reported for the corresponding period of the preceding year. Recent estimates place results for the year as a whole around $1.05 to $1.10 per share, as against the $1.47 per share earned in the year before. The company is the largest producer of cash registers, accounting for about 90% of such machines sold in this country, and specialized accounting machinery is also important. Distribution is worldwide and consequently the outlook at this time is unsettled. While domestic sales have lately been showing satisfactory increases over the corresponding period of the preceding year, with sales to South America holding up relatively well and those to Canada being at moderately higher levels, sales to the British Isles have been adversely affected by the war and in addition foreign exchange fluctuations will doubtless not be to the company's advantage. All in all, it is believed that foreign sales have recently been accounting for about 35% of total volume, whereas normal would be about 50% of foreign and 50% of domestic origin. Over coming months, the outlook for sales will depend on retail trade volume, which in turn is determined by consumer purchasing power and credit conditions. Accordingly sales in domestic markets should be at relatively well sustained levels which will doubtless act to lessen losses from foreign sources. Finances, according to the latest balance sheet available, continue to be sound although inventory and accounts receivable form a large part of working capital. This is, however, usual with this company. Since current earnings are likely covering the dividend rate by only a small margin, increases in disbursements are not

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looked for. As pointed out above, foreign uncertainties somewhat becloud the more immediate outlook, but the dominant position of the company in its field and the possibility that earnings would show rapid expansion on a return of world conditions to normal warrants retention of your holdings from a longer term viewpoint.

North American Aviation

Thanks to your recommendation of North American Aviation shares last June, I currently show a substantial profit on 150 shares. Now, while the dividend return is satisfactory, according to the price I paid I am wondering whether it would be wise to take a profit now or to continue holding. Will you please advise me?—Mrs. N. McN. K., Hastings-on-Hudson, N. Y.

North American Aviation, Inc., confines its activities strictly to the manufacture of military planes. It supplies both United States and foreign governments with observation, combat and training ships. Volume, the chief profits determinant, has expanded sharply in recent years with the result that earnings have improved in each year since 1933. Share earnings in 1938 were equal to 55 cents as against only 14 cents the year before. Capitalization is simple in that the 3,435,033 capital shares, of which some 29% is owned by General Motors Corp., have sole claim on the earnings and assets of the concern. The financial status is satisfactory. Net income in the nine months ended September 30, last, advanced sharply to levels equalling $1.47 a share which was in sharp contrast to the 30 cents a share obtained in the January-September interval of 1938. The complete figures for the past year have not as yet been released but profits are thought to have been in excess of $2 a share. Plant capacity has been substantially increased and with the 1939 year-end backlog of some $46,000,000 increased since that time by orders from the United States and Canadian governments, operations will remain at high levels for some months to come. Furthermore the domestic armament program and the war in Europe should result in substantial additional business over a period of time. Earnings should continue the favorable trend of recent years. 1940 dividend payments could exceed 1939 distributions of $1.40 a share. Although highly speculative the shares appear rather attractively priced in relation to future prospects and retention is thought justified.

Curtiss Wright Corp.

As a result of Curtiss Wright's program of expansion which calls for doubling employment, how will profit margins be affected? Is order backlog still about $150 million? What is your latest estimate of 1940 earnings, judging from business on hand and orders expected from foreign governments? I hold 200 shares of the common at 12¼.—P. B. L., Bronxville, N. Y.

Curtiss Wright is one of the largest and most strongly entrenched of the aircraft manufacturers. The engine division of the company accounts for than than one-half of sales and most of profits with, second in importance, the manufacture of various types of military planes, including attack, pursuit, scout-bomber and observation aircraft. About one-half of orders are usually from the United States Government, the balance from foreign military sources, on which profit margins are somewhat higher. The recent excellent performance of the company's craft under actual battle conditions has resulted in a sizable increase in orders and backlog is currently understood to be somewhat higher than $150,000,000, assuring a well-sustained rate of operations for some time ahead. Recent outlays for expansion made necessary by the large increase in orders probably permitted only nominal earnings in the fourth quarter of 1939, so that results for the full year were likely about 40 cents per share, which would compare with 17 cents per share in the preceding year. Profit margins should, however, be fairly well maintained over the near-term, since the costs of this expansion can be added to the price of the planes. Moreover, a sizable gain in shipments is expected to be witnessed next year on completion of larger production facilities. Given a continuation of the current trends of sales and earnings, some declaration of the common stock over the intermediate term would not be surprising, though the desire of directors to further strengthen working capital position to take care of possible additional business may postpone such a step. While a sudden termination of the war abroad could have a temporarily depressing effect on quotations for the stock, the longer term growth possibilities of the aviation industry and the subject company's strong position therein lend a certain degree of speculative appeal to the issue. Accordingly, retention of your holdings is considered to be the advisable course to follow.

Black & Decker

Has Black & Decker suffered any sales curtailment as a result of the war? Does present sales increase of about 30 per cent over a year ago come entirely from domestic sources? Are profit margins larger or have high material costs narrowed profits? Would be pleased to have report of your analysts. I hold 175 shares bought at 30⅛. What action do you counsel?—W. L., Buffalo, N. Y.

For the fiscal year ended in September, 1939, Black & Decker Manufacturing Co. reported a profit equal to $1.60 per share, more than double that of the preceding year which was equal to 76 cents per share. This improvement has been carried forward since that time and the report for the first quarter of the current fiscal year disclosed earnings of 48 cents per share as against 15 cents for the similar period the year before. The company is an important manufacturer of portable electrically driven tools, such as drills, saws, screw drivers, reamers, grinders, etc., used in a wide variety of industries, the most important of which currently are the construction, aircraft, shipbuilding and armament fields. Development and modernization have kept products abreast of industrial changes and have made for a greater degree of diversification. Domestic competition has been met successfully and that from foreign sources may be lessened since foreign competitors may experience considerable difficulty maintaining their sales volume due to war conditions under which they will be operating. The dependence of the company on levels of general business activity is illustrated by the past earnings record, which shows record profits of $3.51 per share in 1929 followed by a loss of $2.94 per share in 1932, earnings of $2.82 in 1937, then the drop to 76 cents in 1938. Operations over coming months can be expected to reflect industrial conditions and

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with business of the company currently about 25% above the year earlier period, earnings should show further improvement. The latest balance sheet, that for December 31, 1939, disclosed a satisfactory financial position, cash of $664,011 being well in excess of current liabilities of $388,115. The current ratio was nearly 10 to 1. The 377,179 shares of common stock outstanding constitutes the entire capitalization of the company. Some increase in the 25-cent quarterly dividend is a possibility over the medium term, although current disbursements yield a satisfactory return at present levels. With the outlook pointing toward well maintained operations over coming months, the stock has a relatively good degree of speculative appeal and merits retention.

Auburn Automobile

As a result of the amended reorganization plan put forth on January 20, are chances of appreciation for Auburn common any brighter? Please give me a detailed analysis including your opinion of this company's future growth possibilities. I have been quite discouraged regarding my holdings of 150 shares. Do you advise me to hold or sell? I paid 6⅛. —W. W., Lincoln, Nebr.

Auburn Automobile Co. discontinued manufacturing automobiles in 1937. It now makes special automobile bodies, sheet metal stampings, sinks and cabinets. A line of delivery cars is produced by a wholly owned subsidiary. Poor earnings and a restricted working capital position forced receivership in 1937. Capitalization consists of 228,237 common shares and funded debt of $2,226,775. Profitable operations do not appear possible for some time, although losses in evidence since 1932 may be pared somewhat over coming months. At latest accounts 73% of debenture holders had assented to the amended reorganization plan, as approved by the Court. Under the plan common stockholders would receive one new share for every ten old shares held. Future prospects and drastic treatment indicated in eventual reorganization make the common shares relatively unattractive at this time and we feel that funds could be used to much better advantage in other more clearly defined situations.

Checker Cab

You seldom mention Checker Cab in your magazine. I have 150 shares bought at 20⅜, but am quite puzzled as to its market action and outlook. May I have your analysis of these shares? Would also like to know financial status of company, recent rate of sales, profit margins and whatever other tangent information you can give. Do you think there is a possibility that the shares might gain to price I paid in the near future?—Mrs. D. C., Wilmington, Del.

Engaged principally in the manufacture of taxicabs, Checker Cab Mfg. Corp. is the leader in that field. Also, the company holds nearly 62%, the controlling interest, in Parmelee Transportation Co., the largest operator of taxicabs in the country and from time to time a large taker of Checker Cab's products. While there are only several important manufacturers of taxicabs, the amount of business available is rather limited and consequently results in keen competition. The earnings record of the subject concern over the past several years has been rather erratic and since sales, the chief determinant of earnings, conform only roughly to general economic trends and are characterized by wide fluctuations, the outlook for attainment of stable revenues cannot be said to be encouraging. For the nine months ending September, 1939, a deficit of $2.14 per share was reported which compares with a deficit of $1.85 per share in the similar period of the year before. Nor is there anything definite in the outlook at the present time to suggest that volume of taxicab orders which might be received over the near term would be of sufficient proportions to restore the capital stock to a profitable basis. Military orders are, of course, a possibility but a rather remote one. While working capital position is believed to be adequate, there is little to indicate improvement in the near future and at present levels, especially in view of the recent rise in quotations, there seems little incentive to retain holdings.

DIVIDENDS RECENTLY DECLARED

Company	Amount	Rate	Date of Record	Date Payable
Abbott Lab	.40	Q	3/14	3/31
Abbott Lab. extra	.10	—	3/14	3/31
Acme Steel	.75	Q	2/20	3/12
Bristol-Myers	.60	Q	2/15	3/1
Bullard	.25	—	3/4	3/29
Chrysler	1.25	—	2/19	3/13
Continental Can Pfd	1.12½	Q	3/11	4/1
Dictaphone Co.	.75	—	2/16	3/1
Eastman Kodak	1.50	Q	3/5	4/1
Federal Light & Traction $6 Pfd	1.50	Q	2/19	3/1
Hazeltine Corp	.75	Q	3/1	3/15
Kaufman Dept. Stores Pfd.	1.25	Q	3/1	3/15
Liquid Carbonic	.25	—	3/16	4/1
Loew's	.50	—	3/15	3/30
Magma Copper	.50	—	2/27	3/15
Mohawk Carpet	.25	Q	3/1	3/15
Newmont Mining	.50	—	3/1	3/15
Norwich Phar.	.25	—	2/23	3/11
Ohio Power 6% Pfd	1.50	Q	2/14	3/1
Phelps Dodge	.25	—	2/23	3/8
Proctar & Gamble Pfd	1.25	Q	2/23	3/15
Reliance Mfg.	.15	—	4/20	5/1
Scott Paper	.40	Q	3/1	3/15
Shattuck (F. G.)	.10	Q	3/1	3/21
Sutherland Paper	.30	Q	3/2	3/15
Texas Corp	.50	Q	3/1	4/1
Texas Gulf Sulphur	.50	—	3/1	3/15
Thompson Products	.25	—	3/22	4/1
Underwood Elliott Fisher	.50	Q	3/12	3/30
U. S. Tobacco	.32	—	2/26	3/15
Virginia El. & Pr. $6 Pfd	1.50	Q	2/29	3/20
Western Auto Supply	.50	Q	2/19	3/1
Wheeling Electric 6% Pfd	1.50	Q	2/14	3/1
Youngstown Sheet & Tube	.25	—	3/2	4/1
Youngstown Sheet & Tube Pfd	1.37½	Q	3/2	4/1

All declarations on common stock unless otherwise noted.
Q—Quarterly.

Superheater Co.

Please give me your current opinion of Superheater stock, I am now holding 100 shares purchased at 41 in 1938. Has there been a substantial increase in orders since the $1,900,000 in unfilled orders was reported? Do you think the shares might appreciate to my purchase level in 1940?—D. L. K., Missoula, Mont.

Superheater Co. is the largest producer of such steam equipment as locomotive superheaters, feed water heaters, economizers and heating exchangers. Subsidiaries produce similar equipment for general industrial and utility use, as well as refining equipment for the oil and chemical industries. The company is accordingly in a good position to benefit from higher levels of activity in those fields which are expected to be witnessed over coming months, though improvement in earnings may be somewhat delayed since considerable time is often required for fabrication of products. In spite of the company's dependence on the "heavy industries" and the fairly high and inflexible overhead costs, the record of the concern has been notable in that earnings and dividends were reported even in the worst of the depression years. Recent estimates place 1939 results at something better than 60 cents per share, which would compare with 51 cents per share in the preceding year. Finances have been maintained in a very satisfactory position and dividends will likely be in line with earnings. Capitalization of the concern is simple, the 904,855 shares of capital stock outstanding having sole claim on assets and earnings. With the outlook pointing toward probable improvement in results over coming months, retention of your holdings on a longer term basis is advised.

Forthcoming Dividend Meetings

Company	Time	Date
Addressograph-Multigraph Co	11:00	3/6*
American Express Co	3:00	3/5
Beatrice Creamery Pfd. & Com	10:30	3/1 *
Black & Decker	3:30	2/28
Cal. Packing Pfd	3:00	3/14
Central Hanover Bk. & Tr. (N. Y.)	12:00	3/5
Coco Cola	10:00	3/2
Diesel-Wemmer-Gilbert	2:00	3/5*
Elect. Bond & Share $6 & $5 Pfd	3:30	3/28
Fed. Dept. Stores Pfd. & Com	11:30	3/26*
Filenes (Wm.) Sons Pfd. & Com.	10:00	3/5*
Food Mach. Pfd. & Com	9:15	3/4*
General Am. Trans	11:00	5/26*
Hecker Products	9:30	3/27
Helms (G. W.) Pfd. & Com	11:00	2/28
Hercules Powder	10:00	2/28
Int'l Salt	2:00	2/28
Kaufman Dept. Stores	2:00	3/13*
Lambert	9:30	3/5
McCall	3:30	3/26
Nat'l Cash Register	3:30	3/12*
Pacific Lighting	1:45	4/24
Reading Co	2:00	3/26
Royal Typewriter Pfd. & Com	4:00	3/27
Thatcher Mfg. Pfd	9:30	3/20
Trico Products	12:00	3/1*
United Carbon	4:00	3/5
United Shoe Mach Pfd. & Com	10:30	3/13
West Va. Pulp & Paper	10:00	3/19

All declarations on common stocks unless otherwise specified. *Approximate date.

General American Transportation Corp.

I understand General American Transportation is entering the aviation field and that its recent entry into the motor bus field has been profitable. Could you advise to what extent the latter has contributed to net earnings? Also can you confirm the report that total order backlog is over $12,000,000? Am a holder of 75 shares bought at 58¾ and would appreciate your latest analysis.—B. W., Madison, Mass.

While facilities in the car building and repairing fields have been considerably enlarged in recent years, General American Transportation Corp. continues to derive the major portion of revenues in the form of rentals from freight cars utilized in the transportation of food products, petroleum and other commodities. Following a program of expansion and diversification the concern has entered the aviation and motor bus fields. Aggressively and capably managed the company has an enviable record of earnings, having operated profitably in all years since incorporation in 1902. From a depression low of $2.20 per common share in 1932, profits showed consecutive yearly gains through 1937 when net income was equal to $4.44 a share. The following year a decline to $2.91 a share was witnessed. Finances remain characteristically strong. The capital structure is rather simple in that the 1,032,315 common shares are preceded by only $26,281,000 of funded debt. Last quarter improvement is said to have carried 1939 earnings fairly close to the 1938 figures. Unfilled orders of about $12,000,000 are thought to be sufficient to keep the car shops at high levels of activity well into the spring. The motor bus division, having made its first deliveries, may aid profits this year, while aviation activities should be of longer term benefit. Relatively stable operations in the transportation division are to be expected. All in all, recent earnings gains may be further extended over the next several months. The long unbroken dividend record will be prolonged and 1940 distributions may exceed 1939 payments of $2.37½ a share. Yielding satisfactorily, the shares appear to possess a goodly measure of speculative appeal at this time and we are advising their continued retention.

Great Northern Ry.

Please publish your most recent analysis of Great Northern Railway, supplementing the article in one of your issues last fall. I am a holder of 175 shares of this stock bought at 30. Should I continue to hold? As soon as the July 1 bond maturity has been met, do you think a distribution might be voted on the stock? Would appreciate your counsel.—Mrs. L. A. H., Hot Springs, Ark.

With its line extending westward from Duluth and the Twin Cities to the Pacific Northwest the Great Northern Railway Co. normally obtains about 75% of freight traffic and approximately 66 2/3% of total revenues from the movement of bituminous coal, iron ore, lumber, finished iron and steel products and other miscellaneous manufactured products. The cities of St. Louis, Chicago, New Orleans and Mobile are entered over the lines of the Chicago, Burlington & Quincy R.R. which is 50% owned. Non-operating income is of considerable importance. Because of the varied nature of the tonnage moved, earnings tend to rise and fall with levels of industry in general. However, in only three of the past eleven years have operations been unprofitable. Preliminary reports indicate that $3.48 per preferred was realized in 1939, up substantially from the $1.09 a share the previous year. Finances are satisfactory and the capital setup is composed of 2,498,923 preferred shares and $331,070,515 of funded debt. The current industrial reaction is not expected to carry far and loadings over early months are expected to compare favorably with those of early 1939. Accordingly earnings should remain relatively satisfactory in the interval. Dividend resumption is unlikely prior to disposition of the July 1 bond maturity of some $28,000,000. Selling for somewhat less than seven

times 1939 earnings and faced with possibilities of further earnings betterment the shares appear rather interestingly priced at this time and we are advising retention of speculative positions.

Research Profits

(*Continued from page* 601)

presentation." Farnsworth Television has patented a new cathode tube that projects images on a screen several feet wide and Dumont Laboratories, controlled by Paramount Pictures, has developed a receiver of adjustable scanning rate as a guarantee against obsolescence if the present telecasting rate of 441 lines is changed. Only a few thousand television sets were sold last year; this year Radio Corp. alone expects to sell 20,000.

Television is not the only one of today's infant industries born of research. Others are air-conditioning, biochemistry, the cotton picker, prefabricated housing, plastics and synthetic fibers. But not every invention founds a new industry. Some of the most important are simply refinements and new wrinkles in already well established lines. Of these there are so many that we can merely hit a few of the high spots among major recent developments.

The copper industry, for example, is experimenting successfully with a new process for rolling molten metal as it comes directly from the smelter, eliminating the casting of ingots. A new bearing has been developed by Timken that may greatly increase the speed of railroad freight trains by putting an end to hotboxes and similar frictional handicaps. Crucible Steel has perfected a continuous mill technique in the electrolysis production of tin-plate. Electric Auto-Lite has a new battery that grows stronger rather than weaker with age; the plates are covered with fiber glass. The aircraft industry has on the drawing boards, ready for production whenever the transport industry is ready to take them, planes ranging up to two hundred passengers in capacity.

Then, too, there are the new Kinkead and Hopkins processes for giving carbon steel a coat of stainless steel at little additional cost;

U. S. Steel uses the former, Allegheny-Ludlum the latter. Also, Jones & Laughlin's application of the photo-electric eye in timing the air currents passed through molten metal—merely one more of the thousands of uses that have been found for the eye in monotonous timing and inspection jobs in industry.

The automobile industry is not being left behind, though progress in this field is now taken pretty much for granted. Studebaker's Champion, 500 pounds lighter than other low priced cars, and correspondingly cheaper to operate, is a true triumph of research and may start a trend toward lighter weight cars. Oldsmobile's Hydra-Matic drive probably dooms the clutch pedal, while Packard has introduced, as an extra, complete air-conditioning. Polaroid headlight lenses and windshields are definitely on the way.

In textiles, Industrial Rayon has developed a continuous spinning process that cuts operating time for one phase of production from 85 hours to 5½ minutes. In paper, newsprint is now being made from southern pine. In transportation, the Santa Fe has introduced sleeper bus service between San Francisco and Los Angeles. In aviation, a new 42-cylinder, 4,000 horsepower motor has been developed that is reputedly capable of lifting a plane vertically by its propeller alone. In building, such things as panel heating and prefabricated bathroom units are making their appearance. And so on almost ad infinitum.

The state of the world being what it is, the progress of industrial science in other countries is not without its ironical side. Word comes of a new Brazilian plastic made out of coffee while German chemists would undoubtedly consider it quite a triumph if they could find a way of making coffee out of plastics. Which would not be altogether surprising in view of what they have already succeeded in making from low grade coal—things like gasoline, rubber and industrial and edible fats.

The war, of course, has affected the course of research in this country as well as abroad, and here progress takes a grimmer turn. There is the new Garand semi-automatic rifle, for instance, with which the U. S. Army is now being equipped and with which 36 men can theoretically wipe out a whole regiment in just one minute's time. There are also Atomite bombs, cannon mounting planes, rocket artillery, improved magnetic mines and no doubt other weapons yet to be divulged.

But war can deflect the course of constructive research only for its duration and only slightly as long as the United States, which leads the world in research, remains neutral. In any event, if research has made war more frightful it has also made peace more productive. It may ultimately offer a solution to some of the socio-economic problems that are the seed of war.

Struggle for World Trade

(Continued from page 597)

to be the piecemeal bargaining process which has so little to recommend it in theory but works so much better than theories.

When we talk to a competitor for South American markets we can say: "Now you may very possibly be so anxious for this business that you are willing to cut profits to the bone. You may be a tough competitor. But don't work up some elaborate scheme to sell to our customers at any price and make it up on what you sell to us. In fact, we'd almost rather loan you the money you might make on the business gained, because it would be less handicap to our domestic prosperity."

And then, whether talking to Britain or Japan or any other nation, we could lay our cards on the table. Our four aces are: Good will, either in future money or military or naval help, or simply in opposing an enemy; purchasing power—the ability to buy as well as the need for a great many different products; raw materials and manufactured goods of whatever kind needed, whether planes, scrap iron or oil; and finally, a peculiar sort of asset, our willingness to purchase gold at a fat price—a willingness which might end at any time and halt the exchange of the metal for our more useful goods.

The threat to use these weapons is not to be made lightly by us nor to be disregarded casually by the other parties to the competition for world markets. With few exceptions they have more to lose than to gain by entering a knock down and drag out fight, no holds barred, with the United States at this time. We have the commanding position and it is up to us to use it with discretion, with fairness, and with full regard for the ultimate consequences of our actions on the struggles that are going on outside our borders.

Foreign trade is a cold blooded business. It is true there is some secondary sentiment involved; if we are slated to lose any customers we would prefer to lose them to the English rather than to the Japanese. But at bottom every competitor is a trade enemy; economic might apparently means more today than ever before; therefore we are serving our own interests best if we sacrifice as little as possible of the strength in world affairs that may be needed badly in the years ahead. If we use it as we should the potential prosperity to be stored up in the United States now might some day save Europe and Asia from total blackouts, and start South America in business as our partners in growth.

Standard Brands Watches Profit Margins

(Continued from page 625)

over the last decade, although competition is severe and profits slim in this branch. Only Royal Baking Powder is not carried on the trucks, but is rather sold through the conventional channels. The Gillet company's products which include soda, lye, baking powders, cream of tartar and associated lines, are sold only in Canada, but do not bulk large in total sales of the concern. Last year the Wilder Food Products division was sold to a Cleveland spice and tea concern in line with a revamping program that is still in progress.

Production of the company's brands is scattered throughout the nation in large and small towns from coast to coast. The yeast, spirits, gin, and dimalt are manufactured in two Chicago factories; two in Peekskill, N. Y.; and one each in Philadelphia, Baltimore, Cincinnati, Pekin, Illinois; Montgomery, Alabama; Elmhurst, California; Sumner, Washington; and the District of Columbia. Coffee is prepared and packaged in nine plants, and Royal products in three additional plants.

From all these various products the company derives over $110,000,000 in sales, and has shown a steady record in dollar volume throughout the entire depression. But costs have been creeping up and have succeeded in pushing back the profit margin steadily. In 1930 on total sales of $89,759,575, for instance, the company had gross profits of $50,061,614 and net earnings of $1.22 per share, while in 1938 total sales were up to $108,287,954 but gross earnings had fallen to $39,447,522 and the resultant divergence drove net earnings down to $0.55 per share. During this period selling expenses have remained relatively stable and were actually lower in 1938 at $27,569,538 than in 1930 when they totaled $29,770,989 in spite of the increased amount of work necessary to take care of the increased sales at lower prices. Competition, higher taxes, and operating costs have forced expenses up, while at the same time competition from other producers has forced prices down.

Standard Brands has maintained its financial position well despite the shrinkage in profit margins. There is no funded debt. There is, however, a 200,000-share issue of $4.50 preferred stock that was issued to retire an issue of $7 preferred stock and provide working capital. These shares in addition to 12,648,108 shares of common stock constitute the entire capitalization of the company.

The stock which is currently selling around 7 earned an estimated $0.46 per share in 1939 and paid out $0.475 per share in dividends. Some betterment in the profit margins is expected to result from the exhaustive study that is being made of operations. Following the election of W. G. Dunnington, who represents the Fleischman interests, to the board, changes have been made, and more are awaited. New products will be added in an effort to utilize existing distribution facilities more completely, unprofitable divisions will be eliminated and advertising expenses will be more closely controlled. All this is evidence only of excellent plans being put into operation by efficient management. But the real test will come when the actual returns are seen. In the meantime the stock at its present level represents more of a special situation than most packaged food issues, and must necessarily be considered in that light.

What's the Matter with the Building Shares?

(*Continued from page* 603)

period of good demand. Sales of heating and sanitary equipment were good last year but except in the case of those materials which had a direct relation to the costs of copper, lead and zinc, there were but few changes in price from a year ago. Indeed, in many cases, the savings which resulted from increased quantity production in some lines were passed on in part to the consumer in the form of somewhat lower unit prices.

It must be said at this point that the Government is engaged in probing both labor and material costs in search of irregularities but on the basis of past performances, it is likely that the companies engaged in producing supplies and materials rather than the labor unions will bear the full brunt of any forthcoming Government castigation. Especially since 1940 happens to be a presidential election year.

The construction field is divided into three broad divisions; public works, private non-residential and residential building. Of these three, private residential construction is the most important for the purpose of evaluating the prospects of the building supplies industry. That heavy construction consists mainly of concrete, steel and common labor, while residential construction uses a vast variety of supplies and skilled labor is an indication of why so much importance is attached to the residential building industry.

Public works in 1939 were about 6 per cent above those of 1938 and private awards were about 11% higher. Residential construction, however, under the impetus of further liberalization of F H A financing, pushed up about 35% above the totals of the previous year to a new high point since 1930. While residential gains were highest toward the year end, the tapering off of P W A work caused a down trend in other construction during the same period. Average heavy construction awards in December of last year were 30% lower than in the similar month of 1938 and 25% lower than the average for the month of November. All in all, while there was some revival in the volume of privately financed heavy construction last year, unless further P W A grants are forthcoming, the trend of non-residential building would appear to be downward.

Estimates of a further gain of about 10% in the volume of residential construction in 1940 have been rather freely and widely circulated. If the optimistic estimates of new residential needs are true, then the modest estimate of a 10% increase could easily be achieved. However, there are not many of the usual indications that such a heavy need of new houses exists. Rents, probably the best indicator of housing needs, have been relatively unchanged for the past several years.

In summary, it should be pointed out that many of the adverse signs which usually precede a slump in the general building industry are now beginning to appear. They are: declining volume in certain branches of the industry, growing uncertainty as to the public's longer term paying power, rising taxes and costs and no indication that any further broad expansion of newly available space is needed. Added to these considerations are the facts that we are now in war times and that our national resources will be increasingly devoted to armament production; if not for the purpose of sale to the belligerents then for our own rearmament program. In the war situation, however, there is the rather slim compensation that every previous peace has been followed by a building boom.

Pending clarification of the various uncertainties outlined in the foregoing discussion, most building shares, even at current depressed levels, have below-average speculative appeal. They may not continue as war orphans indefinitely, but a quick and easy solution of their other problems does not appear to be in prospect.

Basic Turn in Oils Near?

(*Continued from page* 618)

ex-tax, service station price of 13.5 cents a gallon—gave the Government more than $1,335,000,000 last year, a figure exceeded in the petroleum industry only by payrolls which amounted to about $1,500,000,000. The taxes collected by states and cities from gasoline sales contributed about 33% of all the revenue collected by these agencies from all sources including real estate and income tax assessments. With taxes adding about 40% to the retail price of gasoline, it is not possible that the selling price can be materially increased without encountering rising consumer resistance. Despite the facts that gasoline taxes have been imposed ostensibly to improve and maintain highways for the benefit of motorists and in many states poor roads are by far the exception rather than the rule, it is not likely that legislators will relinquish this prolific source of revenue in the near term. More likely, Government agencies will not only seek to divert gasoline taxes from road maintenance to general purposes but, as has been the case in one large city, add further imposts in the form of sales taxes upon this already over-burdened commodity.

From the foregoing, it is not meant to infer that all of the companies operating in the petroleum industry have an equally uninspiring near term outlook. It is the branch of the industry in which any company's interests may happen to center that will determine the year's results. Those companies who concern themselves mainly with the production of crude oil and who possess adequate, accessible reserves and facilities will probably make a very fair showing of earnings since demand for crude will probably rise, stocks on hand are low and, at least, no downward price revision is in prospect.

More completely integrated oil companies can be expected to do about as well as they did a year ago but the measure of their results will be governed in great part by the amount of crude oil that they can produce from their own properties and the efficiency of their technology in securing the largest possible proportion of gasoline and fuel oil from their crude materials. The companies which will probably make the poorest comparative showing are those who confine their efforts principally to refining and marketing or perhaps to marketing alone.

The outlook for most of the oil

company shares usually held in investors' portfolios is therefore not sufficiently adverse to warrant their immediate sale since current market prices have probably rather fully discounted most of the adverse possibilities.

Watch the Business Danger Signals

(*Continued from page 599*)

rebounded sharply into the forepart of 1923. As for labor costs per unit of output, these jumped 16% from 1919 to 1920 and a little more than 6% from 1922 to 1923. The latter year, like 1937, was also one of labor unrest, the number of strikes increasing 40% over 1922 (the increase from 1936 to 1937 was 118%).

The course of business spending—that is, total spending as reflected by bank debits but after adjustment to eliminate purely financial transactions—frequently offers a clue as to the economic weather ahead. Business spending turned downward in late 1919, early 1923, early 1929 and late 1936, pointing the way for production and stock prices by from one month to nearly a year. Similarly, new orders generally maintain a substantial lead over business activity though in 1929 they held up well until the actual downturn came in production itself which, incidentally, was several months ahead of the stock market. Over-inflation of inventories is another typical danger signal, and contributed in varying degrees to the slumps of 1920-21, 1923-24 and 1937-38.

With the possible exception of certain developments in the field of Government fiscal and credit policy, we have thus far been concerned with economic storm warnings of the sort that lend themselves readily to statistical measurement. There are others, however, that are a little less tangible.

For example, one fairly dependable earmark of incipient depression is widespread and unbridled optimism after an extended period of business improvement and at a time when practically all the usual surface indications are favorable. The general enthusiasm is typically based upon a shibboleth epitomizing some popular exposition of why the existing happy state of affairs will undoubtedly last indefinitely. It was "inflation" in 1937, "new era" in 1929 and "H C L" in 1920—the high cost of living that was to be even higher by fall but which merely resulted in a consumers' strike and the collapse of the commodity bubble. There are always one or two brave and discerning souls who venture to point out the underlying weaknesses in the situation but they are invariably howled down as congenital pessimists who simply no not understand the new order of things.

Again, a characteristic of boom periods immediately preceding three out of the last four major business slumps is evidence of unreasoning excesses in one or another sector of the economy. In 1920, it was the commodity market; in 1929, the stock market; in 1937, the labor market. The inflation of values in each instance was without precedent and without justification from a standpoint of economic balance. The sequel in each case was a period of painful readjustment.

Such, in brief, is the depression record of the past two decades. In each of the cases covered there were factors other than those mentioned that figured in the situation and would warrant discussion in a more comprehensive piece. For the most part, though, they were of decidedly minor importance as compared with the developments already brought out.

But, coming back to a question posed at the outset of this article, which of the statistical and other data bearing on the current business situation are most significant? Which forecast the decline in business that began at the turn of the year?

Well, inventories for one; after remaining virtually unchanged, allowing for seasonal, from the fall of 1938 until the late summer of 1939, they rose sharply in the closing months of the year. And commodity prices for another; these soared with the outbreak of war but since late September have fluctuated within a range of about 15 to 20% above late August levels. But the best tip-off of the decline of the past few weeks came when new orders of industry turned downward in November, to be followed by a decline in business spending in late December.

There is no hint to be had as yet among any of these latter indicators

as to how long the business reaction will last. It is a safe bet, however, that the present decline will not reach the proportions of a full fledged depression—there have been too few of the usual signals. There has been no wave of unbridled optimism, no excesses to speak of, no sustained bond market decline, no deflation of bank credit, no sharp advance in labor costs, no important distortion of cost-price relationships. A major depression from here just does not seem to be in the cards.

Dow Follows Own Cycle

(*Continued from page* 613)

The business that Great Western brings is a valuable addition to the Dow Chemical Co., and is maintained as practically a separate division producing liquid chlorine for pulp bleaching, caustic soda for soaps and oil refining, xanthates for ore flotation, ammonia for refrigeration, hydrochloric acid for many purposes and a variety of other chemicals of lesser importance.

Dow Chemical makes a practice of never embarking on a new industrial venture unless brine or various brine compounds, derivatives, or elements are an important factor. Thus it has not strayed from its essential business and the one with which it is completely familiar. But on the other hand it has certainly not been tied to a limited field. Constant study and research have broadened the scope of Dow's activities beyond the wildest dreams of the founders. Today the company's products are demanded by practically every industry. Among its customers are the petroleum, automobile, aircraft, paper, pharmaceutical, rayon, refrigeration, textile, rubber, soap, leather, mining, paint, and photographic industries.

As might be expected from a company whose manufactures command such a wide market, earnings trends are steady and tend to be influenced by the general state of all business rather than by isolated divisions of industry. But in conjunction with the steady demand for its established products, the company is meeting constantly increased demand from new sources as it places an ever-widening range of revolutionary materials on the market. Thus the long term trend of earnings is strongly up without regard for the intermediate swings in current demand levels. In 1929 net income amounted to an estimated $2,437,000 and a decade later in spite of depression and recession net income had reached $4,178,485, a figure exceeded only by the 1936 net of $4,383,717. The company reports on a fiscal year basis that ends May 31 of a given year so that the 1939 figure is for May 31, 1939. That the current fiscal year which will end on May 31 of this year will exceed all previous records can be seen from the six months earnings statement recently released. For the period ending November 30, 1939, net was $3,445,110 or $3.19 per share.

The capital structure of the company has been undergoing considerable change in recent years. An issue of $7 preferred stock was retired in 1936 through the issuance of 60,000 shares of $5 preferred stock, on a share for share basis. Stockholders who did not enter into this exchange agreement received $105 per share for their stock. The remaining shares of $5 preferred were then offered to the common stockholders. In conjunction with the assimilation of the Great Western Electro-Chemical in 1938, 86,988 shares of Dow common were issued, raising the number of shares outstanding to 1,031,988. In 1936 the company issued $5,000,000 in debenture 3s, to provide additional working capital and permit further plant expansion. And the current capital position of the company consists of 1,031,988 shares of common, 60,000 shares of $5 preferred, and $5,000,000 in 3 per cent bonds.

Completely disregarding the general market apathy, Dow Chemical stock has been moving into new high ground steadily. On the basis of earnings, estimates which are currently projected at about $6.00 per share as compared with $3.76 per share (adjusted) last year, this is not surprising. At its present levels near 150 the stock is a blue chip of the first rank. Of course the earnings picture will be colored by the state of business in general, but the operations of Dow are stretching into so many new fields and its products are meeting with such excellent reception that the long term trend for the company is distinctly favorable.

As the Trader Sees Today's Market

(*Continued from page* 611)

thrust would be made at the first opportunity. However, the area just above 240 has stopped four rallies in the last year and a half, so that failure to come up to the November top would imply a supply of stock rather consistently for sale around 240. Should the next rally go through the November high, the picture would present a clear sequence of rising tops in addition to the rising bottoms visible. So far in 1940, at least, the group has offered no discouraging signs that would indicate a possible reversal.

The Petroleum group has been one of the disappointments of the war market. First thoughts were that American companies would gain by large European demands for their products, but after the September rally these hopes were quickly deflated. The lows of the last few months for the oils have been within striking distance of those for the 1937-38 bear market, offering either a bearish interpretation based on the poor action or a more hopeful one based on the proximity to previous support. The group actually has moved back to a level equal with that of early last summer and it is quite possible that discouragement over its prospects may have been carried too far. Only the negative encouragement of nearby potential support, however, is apparent from market action to date.

In the case of the groups charted in conjunction with Part III of the Dividend Forecast, as well as in many others included in earlier sections, there seems to be a good chance that the next few weeks will be revealing as to future market action. Weekly figures on each group are published in the Business Analyst (blue section of the Magazine) and it would be a good plan for readers interested in particular industries to check market action by extending the charts for the next month or two. Work of this sort sometimes pays handsome dividends, quite aside from any that may be garnered in the course of owning any of the individual stocks covered in the Dividend Forecast.

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